

Chapter 1: Overview of Property Management

CHAPTER OVERVIEW

The beginning of this chapter gives you an overview of the book so you may more readily locate specific information about property management that you seek. In this chapter you will read about how the history of property management has influenced present day property manager operations. You will be introduced briefly to the different types of properties and their individual management needs. Finally, you will learn about the professional organizations of property management.

Student Learning Outcomes:

As a result of studying this chapter, the student will be able to:

- Have a general overview of this text and have an idea of where to locate specific data.
- Compare and contrast U.S.A. property management development and how it differs from California property management.
- Describe early California property influences as related to growth in the state, disaster in California and in other states, statehood and housing up to World War II.
- Delineate events that influence today's property management, including international and foreign factors, using specific eras, economic events and impetus that influence current practices.
- Describe types of real property to be managed and list advantages and disadvantages for each from the point of view of the property owner, an investor, and the property manager.
- Locate and define the various professional organizations and professional designations affiliated with professional property management, including describing the criteria to be achieved in order to be awarded such designations.

1.1 Introduction

The apartment complex you live in has a property manager. The rented house down the street has a property manager. The place where you store your motor home or boat has a property manager. Your vacation hotel and timeshare has a property manager. The grocery store where you shop is part of a commercial center under property management. The physical place where you work is run by a property manager. So when you ask, "Who is affected by property management?" the answer is virtually EVERYONE. Property management touches the lives of so many people because it affects where we live, work and play. And our individual lifestyles depend, at least in part, on how these places are managed.

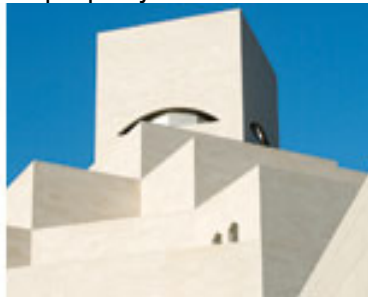
So what is **property management**? It is the business of administering, controlling, and directing the operations of real property. Property owned by others may be managed for a fee, or may be managed by the owner for profit or pleasure. Property may be managed by the largest, most professional firm in the country, or by the most inefficient, awkward individual, including an on-site employee of the owner, an off-site licensed real estate agent, an off-site employee of a property management firm, or the property owner or a member of the owner's family.

Why should property management be systematically studied? One of the group of professional managers, the Certified Property Managers (CPMs®) manage over \$1 trillion in assets representing over 15 million residential units and over 10 billion square feet of non-residential property. These figures alone may convince you that property management is worth studying. Even more important, as someone interested in managing income-producing property, you want to learn the most efficient methods of handling the valuable asset of real property.

Today's marketplace is governed by complex, sophisticated laws, and the relationships between the parties to a management agreement are often complicated. Mistakes in the management process can be extremely costly. Yesterday's "seat of the pants" management is no longer the best way to handle operations where an individual jumps into managing their own units by trial and error. Today, you need to possess concrete property management skills to successfully manage even one rental property.

This book will help you learn those important property management skills. It guides you through each of the steps of property management:

- how to find a rental,
- how to handle the rental agreement and contracts,
- how to handle maintenance needs,
- how to address the legal maze and the court system,
- what rent control means,
- how to combat increasing expenses,
- how high real estate property values affect you,
- what to do with deposits, and
- how to manage people, as well as property.



The keys to working in the career of the property management business today is to know where to look and what to look for in the rapidly paced real estate market. This book is designed to help you do that.



1.2 Preview and Overview of the Book

This book is divided into five sections, as shown in Figure 1.1, called the 5 P's, which represent the Property, Profit, Paperwork, Players/People and Profession. The sections may be studied in any order. While the text is written with sections one through five, you may choose to use the material in a different order, such as section 5, 4, 1, 2, and then 3.

The first section is about the physical premises, the PROPERTY. Chapter 1 covers the numerous types of residential property requiring property management. Chapter 2 discusses the physical phases in the life of real property, which may be extended or shortened, depending upon repair and maintenance.

The second section of this work is about the big picture of purchasing the property and initiating a plan of operation to ensure greater success in making a PROFIT. Chapter 3 outlines the various methods for holding title to real property that can have tax consequences for subsequent generations, in addition to reviewing differing goals for property ownership. Short-term investors value property differently than long-term investors, appraisers and real estate licensees. The purchase of income-producing property is also reviewed in this chapter. Chapter 4 outlines the steps for establishing a Management Plan.

The third section of this book is the bulk of the majority of daily operations when managing income producing property, covering the PAPERWORK. The type of property managed determines the forms used. Chapter 5 covers residential property and includes handling the vacancy, advertising and marketing, rent control and showing the unit. Chapter 6 discusses the aspects of on-site personnel and operations. Chapter 7 details the forms for residential management from move-in to move-out, including security deposits. Chapter 8 covers specialty residential property management, such as single-family rentals, mobile home park management, recreational and resort property management, housing for the elderly and special purpose housing. Chapter 9 outlines the aspects of homeowner association management, while Chapter 10 includes various non-residential property management operations.

The fourth section of this work involves the various PLAYERS in the rental industry, the PEOPLE. Chapter 11 covers the maintenance people and security for the property. Chapter 12 outlines numerous topics concerning the off-site management office.

The fifth section of this book is about the PROFESSION of income-property management. Chapter 13 describes the accounting and records management part of operations. Chapter 14 discusses legal and insurance topics in addition to fair housing. Chapter 15 reviews professional property management, including tenant right and legal requirements, habitability, the code of ethics and standards of professional practice for property managers.

1.3 Historical Perspective, Present and Future of Property Management

PROPERTY MANAGEMENT IN THE U.S.A.

Managing property owned by another dates back to Biblical times when stewards cared for lands owned by Kings, emperors and other rulers. The powers, responsibilities, and compensation of property managers have changed dramatically over these thousands of years, but the need for competent, trained professionals is just as pressing.

Based upon a foundation set from earlier Roman conquests, the European feudal structure was the basis for today's three-party property management system. Typically, the king owned the land and transferred the daily operations of management to feudal lords. The feudal lords, who performed the tasks similar to today's property managers, employed tenants to work the land.

Colonization of much of the world by European countries perpetuated this three-party system which is just as effective today: landlord, property manager, and tenant. Just as stewards leased

property to shepherds for grazing on behalf of the king, modern property managers lease apartments or office space to tenants while representing property owners.

This system was also imported to the United States. The United States was founded on the ideals of preserving individual property rights. The United States Constitution upholds the definition of the rights of property ownership: the right of an individual to hold title to and possess property; to make legal use of it; to pledge, mortgage or encumber it; to sell, transfer or dispose of it; to enjoy it; to exclude others from it; and to hire someone to manage it.

In the 1800's, most American property managers handled European investments on the East Coast. These "out-of-town" investors needed someone on-site to manage their properties. Handled primarily by the owner or their family, multi-family residential, commercial and office space were the chief sources of management. Then, in the 1900's, residential housing standards rose and increased demand in non-residential management arose along with breakthroughs in high-rise technology, due to the electric elevator and use of reinforced steel. Thus, greater expertise was required to manage property, even properties owned by local investors.

The demand for property management continued to grow. The advent of the automobile encouraged urban sprawl, moving owners farther from the property they owned. Great accumulations of wealth encouraged high growth in real estate projects. Then the Great Depression led to mass accumulations of bank-owned, bank-managed holdings. These banks needed property managers to handle their suddenly large property portfolios.

Since the 1950's, demand for property management has varied according to regional development, the economy, the age and lifestyles of the population, and government policies. By the year 2000 there is ongoing, constant demand for good property management.

From 2007 through 2012 high rates of foreclosures for certain real estate sectors forced the bank trustees to appoint a conservator for property or the beneficiary/bank has had to manage the property themselves, which causes increases the demand for employee property managers rather than independent, fee-based property managers. The highest demand will always be in the geographic areas where the highest population and highest property values exist. International and multi-lingual firms are increasing in high demand.

Knowing the market in a specific, popular area will be a distinct plus for the up-and-coming property manager as the national trend is towards management specialization, increased levels of education and proof of actual hands-on experience. Property management firms who predominately hire tenants as the vast majority of their property managers find that the gap between knowledge of property ownership and finances often may lead to negative outcomes.

PROPERTY MANAGEMENT IN CALIFORNIA

The California and southwestern areas evolved a little differently than the rest of the United States. From tribal days to present times, California has been influenced by unique cultures, doctrines, and philosophies that have carried over to shape today's property management operations. The following material is a brief summary of some of the historical highlights that have affected property management in California.



THE PERIOD PRIOR TO 1768

The California Native American Indian tribes occupied the territory that is now California when the Portuguese explorer, who worked for Spain, discovered California. The first land dispute in California began when the Indian Chief, the King of Spain (Cabrillo, 1542), and the Crown of England (Drake, 1579) each wanted to be landlord and wanted the others to be tenants. Since there were no established permanent structures (property improvements) to help the claims of the Spanish and English, the Native American Indians won the first round.



THE PERIOD FROM 1769 TO 1823

In the eighteenth century it became apparent to the King of Spain, Charles III, that the unknown lands in Alta, or Upper California might soon be settled by either Russia or England. The Russians were venturing farther south from the Bering Sea each year in their search for otter skins. The English, by recently winning control of Canada, posed an equally serious threat. To forestall the advance of these competing nations, Charles III gave permission to the Franciscan Order to develop Missions in California.



While Spaniards had established other missions and settlements in Baja, or Lower California, it was not until 1769 that Captain Portola led the expedition that established the first *presidio* (military fort) at San Diego. He also established one at Monterey in 1770, and San Francisco in 1776. More missions were founded along with some pueblos (villages) near the coast. By 1823, the Franciscans had built a chain of 21 missions -- the first chain of income-producing multi-family, hotel and commercial developments in California.

The missions gave Spain some control over the land, giving rise to a right of ownership by occupation. The "occupation" (by the "landowner") required only the manpower of two padres (the "property manager") and a few protective soldiers. The missions were to become self-sufficient after some years of receiving supplies from Spain. After training the native Indians (the "tenants") for ten years, the missions were to turn over the mission lands and improvements to the natives as self-governing Spanish subjects. The Franciscans, who wanted to save souls, and the King, who sought to secure the land, joined together in an alliance of mutual benefit. No one asked the Native American Indians or the English settlers for permission -- they were both promptly evicted from the area. In the meantime, California was still owned by Spain. But in 1821, the property came "under new management" when New Spain (Mexico) won its independence from Spain and drove Spain from this continent. However, the language and laws in California were still a continuation of the prior Spanish influence.

THE PERIOD FROM 1823 TO 1845

The Russians established Fort Ross in Northern California in 1812. Their activity in California was one reason for the United State's Monroe Doctrine (proclaimed in 1823), which stated that all the American Continents were "henceforth not to be considered subjects for colonization by European powers."



This marked the arrival of the first government intervention in California housing controls. In 1824, Russia agreed to limit its settlements to Alaska. In 1839, Sacramento had a population of only 16. Juan Alvarado, Mexican Governor of California, granted over 48,000 acres to John Sutter, in hopes of stopping both the Russian push inland and the arrival of eastern American trappers. This successfully stopped the Russian expansion in California in 1840, known as California's longest eviction, from 1824 to 1840.

THE PERIOD FROM 1846 TO 1849

It is no wonder that the Indian tribes fled from California when another new management (John Sutter) arrived, creating more new policies and procedures. The American rebels raised the

"Bear" flag in 1849, as a result of the Mexican War from 1846 to 1848. With the Gold Rush in 1849, hundreds of eastern American colonists arrived in California. Sacramento had grown to 4,000 by then (the state population was only 12,000). There were plenty of funds but little available housing -- the high demand had stripped all existing supply. Little formal management was needed at this time. People who invested in real estate structures, housing for the people involved in the Gold Rush, often made far more money than those who invested in the search for gold. Virtually any place with a hot shower, a bed and food made money at that time. While most of the country was still primarily agrarian, California was already heading in another direction.



THE PERIOD FROM 1850 TO 1870

On April 4, 1850, Los Angeles was incorporated as a city and, five months later, California became the 31st state. The state's population grew from 26,000 in 1848 to 379,994 in 1860; the city of Los Angeles grew from 1,610 in 1850 to 5,628 in 1870.

When the Civil War ended in 1865, thousands of settlers came to California to buy land at low prices. With eastern investors pouring thousands of dollars into California land speculation and the railroad system (completed in 1869), land management was in high demand.

The first low-income government housing was established for the Chinese railroad laborers in the 1860's. By 1870, the state population had risen to about 560,000. Structures, even whole towns, were thrown up almost overnight to meet the needs of an expanding population, with no long-range planning for public safety, facilities, zoning, or minimum building requirements.

THE PERIOD FROM 1871 TO 1889

For the next ten years, economic depression was widespread. The first major discrimination riots took place in Los Angeles in 1871 and in San Francisco in 1877. The cause of these riots was due largely to the Chinese railroad worker immigrant population. Working for lower wages made the local state residents rebel against them. Many of these workers were prudent savers who often shared housing to lower their living expenses allowing them to pay high rental rates which forced prices even higher for local residents.

The first major marketing campaign took place in the 1880's, publicizing the lower real estate and rental costs in the "Sunshine State" to Easterners. Thousands came to the area during this period and the demand for property management fell because of the high supply of tenants. So many came to southern California in 1887 that agriculture, industry, and housing flourished because of the increased demand.



THE PERIOD FROM 1900 TO 1929

These years ushered in the period of government regulation of real property. The great San Francisco earthquake in 1906 destroyed 28,000 buildings. More damage was caused by the poor building standards, fires that spread due to lack of regulations on utility pipes and lines, and the close proximity of wood structures one-to-another that shared common walls. When the city was rebuilt, building codes, ordinances, and building material regulations were welcomed by the outraged citizens. New multi-family and commercial structures became highly regulated. The rebuilding of San Francisco brought outside expertise, such as in cement work that utilized reinforced concrete and high rise structures that utilized the electric elevator,

Between 1905-1907, floodwaters from the Colorado River formed the 450 square mile Salton Sea in southeastern California. In 1928, Congress authorized the construction of the Boulder Dam, completed in 1936 which brought workers into California and their families that needed housing. Demand for construction workers grew which increased building of units and increased property management needs. The California Land Management offices had enormous tasks of controlling floods, providing irrigation for the vast farmlands, and distributing power to the ever growing Southern California area. Farming increased. Oil, natural gas, and minerals were mined. Major shipyards were established. Because of government controls regulating land use, mineral rights, and housing, property management was in high demand.



By 1910, Hollywood had become the motion picture capital of the world, and investor funds poured into California's income-producing properties, sparking even more of a demand for property management as numerous apartment houses were developed. Sunset Boulevard and Hollywood Boulevard, along with Vine Avenue became a hub of commercial activity, occupied by various movie-industry tenants, such as luxury auto dealers, restaurants, movie houses, sound stages, movie studios, shopping and more. Through World War I, property management was primarily concentrated with these commercial properties, hotels and urban apartments. After WWI, as property owners became wealthy, many income property owners became absentee landlords who hired real estate brokers to fill vacancies and manage their property.

THE PERIOD FROM 1930 TO 1959

During the Great Depression of the 1930's, the economy of Los Angeles slumped, but its population grew as thousands of jobless and homeless drifted into the area due to the good weather and availability of existing housing. These out-of-state Americans migrated to places where they hoped to find factory work and affordable living. Naturally, this increased the already high demand for housing units in locations where orange and avocado trees had fruit hanging over the fence and temporal weather for easier living. The Federal Housing Authority was enacted by Congress in 1933 to address housing issues. Many FHA programs aid home buyers. But, Section 8 and similar tenant-related programs were also enacted that required professional property managers.

Following the outbreak of World War II in 1939, nationwide Federal rent control laws were enacted. The war brought yet another wave of new residents into the cities of California to work in aircraft factories, shipyards, and other war-related plants. The San Francisco Bay area had military installations, as did San Diego, Long Beach and South Orange County which brought military related jobs, people and demand for off-base housing for those enlisted. By the end of the war in 1945, Los Angeles had over 1.5 million persons. Thousands of new homes quickly covered the city's open spaces. Landlords, investors, and developers could not provide the supply of housing units that were needed by tenants, homebuyers, and commercial and industrial entities. Maintenance was often ignored.



Property management had a low profile because of the virtual 100% occupancy, until about 1957 when an equilibrium point was reached as the supply of housing began to catch up with demand. This balance created a demand for an understanding of marketing and advertising, staging and showing vacant units, and tenant negotiations that had previously been unknown to landlords.

THE PERIOD FROM 1960 TO 1969

Air pollution, control and distribution of water, and growing industry were initially thought to be the issues of the 1960's. The population of California had grown to over 2.75 million people.

Then the Watts riots broke out in 1965. After millions of dollars in damage and the death of 34 persons, the true problems of housing in Southern California surfaced. The government responded to the complaints of minorities by providing increased education, employment opportunities, and affordable housing. Many government-owned or controlled units were built that required property managers under FHA and Section 8 programs. Government participation in residential housing increased demand for professional property management.

The Federal Housing Administration (FHA)

What is the Federal Housing Administration?

The Federal Housing Administration, generally known as "FHA", provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA insures mortgages on single family and multifamily homes including manufactured homes and hospitals. It is the largest insurer of mortgages in the world, insuring over 34 million properties since its inception in 1934.



THE PERIOD FROM 1970 TO 1989

In the early 1970's, the housing market was sluggish, with low demand and little turnover. High taxes and increased government spending became a major issue in the 1970's as the aircraft industry declined, brush fires rose, and earthquakes shook the very foundation of the area. Homebuyers, investors and renters were no longer able to pay the rapidly escalating prices. In 1978, Proposition 13 (which limited the increase of property taxes) was voted in to restrict government spending. The late 1970's saw the formation of tenant associations, tenant strikes, and government-imposed rent controls.

In the early 1980's, thousands of investment dollars left California, causing upheavals in the housing market. New investors were unable to afford the high prices, negative cash flows, and increasing taxes.



By 1990 San Francisco had only enough affordable housing for only one worker out of three. With the California cost of living 132.7%, higher than the national average, San Francisco housing costs are even higher at 223.9%. Skilled property managers, city planners, and

business persons worked to meet these challenges. Multi-family housing became a greater percentage of new construction, with the composition being larger complexes of high-rise and multi-purpose buildings.

Another contribution to the growing need for professional property management came from the large immigration influx of Hispanic and Asian people into the Los Angeles, San Diego and San Francisco metropolitan areas. Multi-lingual property managers are in high demand to communicate and negotiate with both the foreign investors who purchase the income-producing property and the tenants of the properties where often English is their second language.

THE PERIOD FROM 1990 to 1996

During this period a real estate recession occurred where property values across the state decreased by about 20%. Military bases closed, aerospace jobs went out of state and many corporations moved to surrounding states to avert the high taxes in California and the added costs due to environmental constraints. Ex-Californians filled the surrounding states, increasing property management demands in Phoenix, Las Vegas, Reno, St. George, Salt Lake, Denver, Portland and Seattle areas. Many new developments built out of state were master planned with homeowner associations that are run by property managers. Trained, experienced California property managers moved with the population to surrounding states to operate these associations. Local markets saw an increase in demand for lower-priced home ownership in the form of condominiums, which require property management. At the same time, numerous laws were enacted that have made property management so complex that it is often overwhelming for the individual property owner to keep up with current and diverse changes in areas such as landlord-tenant relationships, employment laws or personnel, anti-discrimination regulations, housing standards and more.

THE PERIOD FROM 1996 TO 2006

The price of real estate in California rose to an un-sustainable level. The income-property price was so high that the rents could not support the purchase price, thus leaving negative cash flow even after a large down payment. Coupled with high prices, the first baby-boomer retirements at age 62 and 65 produced an ever increasing retirement population. These retired people, who had seen the values of California real estate grow tremendously, and often kept their single-family home property as rental-income units while they travel in their motor homes or traveled while they figured out their retirement living options. Some refinanced their home to pull equity out to purchase property in a lower-cost area, often in surrounding states due to the desire to move out of the crowded cities. These working-professionals, who are becoming retirees in vast numbers, demand professional property management.

THE PERIOD FROM 2007 TO 2012

A drastic change occurred when the mortgage melt-down occurred in 2007-2010 as fallout of the sub-prime loan market. Many people purchased homes with very low down payments, if any. The loan had a variable interest rate. When rates started to rise, the borrower could no longer make the payment. Foreclosures started to occur in the hundreds of thousand, nationwide. California saw certain areas with escalated numbers of foreclosures. As banks took back more and more properties, the need for professional property management rose to keep vagrants out of vacant units, to maintain the asset on which the loan was collateral, and to obtain qualified persons for the properties.

The great recession, fueled from high oil prices that lead to inflation, coupled with the housing collapse, increased demand for property management. By 2008, 1.2 million jobs had been lost

and the jobless rate rose to 6.5%--the highest in 14 years. The Labor Department claims for unemployment benefits jumped, substantiating the weakening job market. The legislature approved seven additional weeks of payments to people who have exhausted their regular 26 weeks of benefits. Those where unemployment is above 6% were entitled to an additional 13 weeks above the 26 weeks of regular benefits. Congress has enacted federally funded extensions seven times in the past 50 years, during economic slumps: 1958, 1961, 1972, 1975, 1982, 1991 and 2002. With the drop in stock market prices, the decline in building construction, reduced consumer confidence and high job loss, it is expected that the huge government bail outs will push the inflation rate back into higher numbers. Inflation fuels increased real estate prices and raises rent levels for those employed and can pay rent.

FOREIGN INFLUENCES ON PROPERTY MANAGEMENT

International investors from the western Pacific-Rim have brought large amounts of additional investment dollars into California. The influx of immigrants has changed the complexion of entire communities as ethnic mixes change. New cultural, diversified interests have brought about new business opportunities. Higher demand for more affordable, smaller size living units has spurred the condo market into new heights of sales volume. Ethnic neighborhood shopping centers are in high demand to cater to local areas. Multi-national and international business headquarters and regional offices are leasing California coastal and airport-convenient high-rise office buildings. California property management now interacts with markets in every part of the world.



Anticipated appreciation due to high demand by the large influx of immigrants, many of whom are gaining citizenship, has caused prices to increase. The even higher price of homes in other countries makes California homes seem more desirable to foreign investors.

Example: A \$280,000 medium priced United States home is \$850,000 in Belgium, France, or Germany. Even worse, the same house would be \$1,300,000 in Hong Kong. As the Euro continues to gain strength, many more foreign investors will be entering the U.S. rental housing markets.

1.4 Types of Properties Managed. The following discussion is divided into two groups, non-residential and residential properties. The property manager is hired to maintain the value of the property the investor owns. The manager must understand the elements that create value for the various types of property.

NON-RESIDENTIAL

AGRICULTURAL/FARM LANDS.

This property pertains to the country and is distinguishable from city, or urban, real estate. The income from rural properties is often heavily dependent upon weather conditions, soil productivity, national and international economic sanctions, embargos and tariffs. These conditions are out of the realm of property management as referred to in this text. Special agents are trained for this field, and many colleges offer courses in the field of managing ranches, farms and acreage. Government agencies administer special funding programs for this segment of the economy and agents receive training to handle these operations.



COMMERCIAL PROPERTY.

Commercial property is that part of the real estate industry that relates to the commerce and trade operations of a business. Office buildings, for example, were once located in the Central Business District (CBD) where most commerce was handled. Decentralization of trade areas has moved many offices to locations near transportation arteries. Major freeway intersections, airport hubs, and proximity to skilled employees have drawn commercial property to more outlying locations. A vacancy factor of 5% is often used, with expenses estimated at 25%. With triple-net leases, expenses are projected at only 5%. Capitalization rates range from 7 1/2% to 11%, although they can vary widely depending on economic conditions.

RETAIL STORES have value characteristics based upon the economy and the lease.

Economy. National, regional, and local economies affect the value of retail store property. Information regarding the buying power of potential customers is extremely important. This buying potential must be measured against the number of existing and proposed retail outlets to see if the customer's expansion ability has been reached.

The value in retail property is based on the expected number of customers who can be attracted to the property and how much they will buy.

Lease. The lease must include a thorough analysis of the existing tenants and their lease(s) for pass-through expenses, in addition to base rents for the appraisal process that will be part of the retail store analysis..

OFFICE BUILDINGS are valued by location as well as negative elements, which are taken into consideration when establishing and setting value for the property. Vacancy factors begin at 5% and are increased in many areas. The rate increases as it moves from primary locations to secondary centers. Expenses are calculated either as a percent or a price per foot. Thirty-two percent to 35% are commonly used amounts. Capitalization rates are 9 1/2% to 10%.

Location. Convenience to transportation, stores, banks, restaurants, and prestige of the location rate high for commercial property. The primary locations, such as downtowns and airport centers have remained in demand. Secondary locations, however, have suffered extensive problems attributed to high vacancy factors.

Negative Elements. With population growth rates in California at high rates, many speculative office buildings were constructed. Vacancy rates are prime considerations when valuing this type of property. Elements considered are area demographics, the general economic climate, competition, the lease, the tenancy and the tenant mix, but most of all parking and proximity to other businesses.



SPECIAL PURPOSE COMMERCIAL PROPERTY.

Special purpose commercial property management includes that portion of the real estate industry geared to customized expertise within a business area. Examples include ownership of gas stations, mini-warehouse storage facilities, day-care centers, and recreational-use centers.

SHOPPING CENTERS have value factors based upon the entirety. A market survey is required of the area from which the center is likely to draw customers to find the number of families in each income bracket.

Entirety. A shopping center is valued as a whole. Parking is common to the entire center. The anchor positions are usually the tenants for the magnet department store(s) around which the shopping center is designed. They are expected to act as the main draw to attract shoppers, which benefits all other retail stores in the center.

Strip Shopping Centers are retail stores clustered without a major tenant. They vary widely in mix, but theme centers tend to fair better than incompatible mixed-use stores. For example, a center dominated by several clothes, shoe, and jewelry stores, plus health food, hair salon and barber shop that exist in a center makes it inappropriate for a vacancy to be filled with an automotive store, rather than a cleaners.

INDUSTRIAL PROPERTY.

Industrial property is real estate used by a business entity to process, fabricate, manufacture, and/or distribute its product. The earlier multi-story loft structures are being replaced with automated, computer-assembly, one- or two-story buildings within industrial parks or within highly developed industrial cities, such as City of Industry or City of Commerce. Industrial complexes can be privately developed, municipality projects, or joint ventures between municipalities and private corporations. Important to their success are factors such as transportation arteries, water supply, labor market, maintenance costs, government regulations, and pollution standards. The value factors for industrial property falls into several categories: Special Use Design, Location, Market Activity and Current Trends. Flat amounts are used for industrial buildings, with the vacancy factor 5%, expenses 20% (with triple-net leases, use 5%), and capitalization rates of about 10%.

Special Use Design. A lot of industrial property, particularly manufacturing property, is special-use property, which may be costly to convert to any other use. This results in a higher rate of functional obsolescence (defined and discussed later) than for other types of property, and also results in a greater reliance on the cost approach (see chapter 3) in appraising industrial property.

Location. Industrial property requires a location close to: raw materials, or transportation facilities for the finished products; public transportation; housing; recreation areas; schools and other amenities for employees; and affordable fuel and utilities.

Market Activity. Historically, less market speculation existed in industrial property because of its special use nature. Buildings were constructed to fit a specific tenant's needs. Greater emphasis was placed on the cost approach of appraisal because of its special use design. Fewer market comparables existed, so the market data approach was not very practical. Much industrial property was owner-occupied, which resulted in little comparable rental data to use for an income approach to value. For the lender involved in a transaction, this resulted in greater reliance on the financial position of the borrower and less on the value of the property than is true with other income property loans.

Current trends. Many large industrial parks have been built in California. These are often built to house types of industries, rather than a specific tenant. They are built to accommodate the linear pattern of materials handling, with large storage areas for finished products. Commonly found in the outlying suburban growth pattern California communities, proximity to airport and trucking-freeway patterns is particularly valuable.

Examples of these industrial parks include the Ontario Airport and Silicon Valley facilities. The Ontario Airport area in Southern California encompasses three major railroad lines, half a dozen freeways, and an international airport that can accommodate the largest planes made. Hundreds of thousands of square feet of speculative industrial and warehouse space was built to accommodate unknown tenants. Silicon Valley, likewise, was constructed to house high-tech users without specific owner-user or previously agreed upon, built-to-suit tenants. With this kind of development, rental rates and even sales data should become more readily available.

MINI-WAREHOUSES. The vacancy and bad debt factor is broken into two separate components for mini-warehouses. A 10% total is usually used, but a 7% vacancy rate is common, and the remaining 3% balance reflects the collection problems. Adjustments in the rate are usually a result of an analysis of the collections. Expenses are estimated at a straight 25%, and a capitalization rate of 10% is commonly used.



RESIDENTIAL

More square footage of property is managed as residential than as any other type and, consequently, a large percentage of all property managers handle residential property. Residential real estate includes any property unit that can be occupied as the living space of an individual.

Over 50% of California's mostly urban populations of over 34 million people are tenants. This makes the rental housing market the third largest industry in California (ranking behind only tourism and agriculture).



SINGLE FAMILY RESIDENTIAL.

A **single-family residential** unit has many advantages. For investment purposes, homes tend to be the most flexible. If the investment market is weak, they can usually be sold more readily to an owner-occupant. This property usually appreciates well, allowing the owner to borrow against the equity to purchase additional property.

Location is often a factor, determining both desirability of the property and ease of management (proximity to the owner's home is beneficial for daily management operations). Vacancy rates tend to be low because tenants tend to stay longer. However, when there is a vacancy, there is no income at all. Tenant selection needs to be more rigid because of the high cost of eviction. Potential physical damage is also greater. Routine maintenance is usually less because the tenant is often responsible for at least part of it, and often voluntarily performs additional services. A single family home refers to a residential unit intended to be occupied by one family. It is the most spacious of the types of real estate managed as residential rental units. Single family properties often become rentals when the owner is unable to sell the house or because the owner plans to move back into the property after traveling or a temporary job transfer.

These owners often discover the benefits of owning a rental property. They are usually less labor-intensive to manage, as the tenants often carry more pride of ownership, possibly due to the higher tenant cost of occupancy. And once the owner discovers the tax advantages of owning a rental, it is hard not to continue to be a landlord. Single family residential housing allows more flexibility, is rarely subject to rent control, incurs fewer maintenance and upkeep costs because of tenant contribution, and is usually in cash flow positions which make good economic sense.

Example

A person facing retirement has a home that they paid \$160,000 for that has an existing loan of \$50,000, payable at \$500 per month (including taxes and insurance). Due to normal 7% inflation over 20 or 30 years, the home is now worth \$560,000. One choice for the retiree is to sell the home. This would realize net cash of about \$500,000 after paying about \$10,000 in transaction costs and paying off the loan. The retiree could pay all cash and purchase a senior-citizen housing unit (condo, home in an outlying area, mobile home on a golf course, etc.), using about \$300,000 of the \$500,000 for the purchase price, closing costs and moving expenses. The balance of the \$200,000 could then be freed up from real property equity to invest. If a rate of return of about 5% per year could be made on that \$200,000, a \$10,000 annual income would be generated that could be used to live on and to offset retirement expenses, such as travel or medical needs. The offset that must also be considered is that if the retiree kept their current home, it will probably appreciate at about 7% a year over a future 20 year period. The home could be converted into a rental. If the rental income were \$1500 a month (less the \$500 payment on the loan), the property should generate about \$1,000 a month, or \$12,000 a year positive cash flow the first year alone. Everyone knows that rents tend to increase each year at about the same rate as inflation increases so that the

retiree would continue to have increased income well above relatively fixed retirement funds, such as social security. This could be especially helpful for heirs should the retiree need special senior housing due to medical conditions and need income to offset the expense of this type of higher rent housing.

Single family homes can usually be quickly liquidated to the tenant, relatives, neighbors, or the general market. It can also be used as equity to buy additional property, or to trade up for more units. (Note: The general public expects home prices to increase at a pace equal to or slightly above the inflation rate for each year. In the long run, this rule has held true in California's past, even with downturn fluctuations that occur during short run periods on a periodic basis.)

In terms of cash flow, a larger down payment is often required for non-owner-occupant financing. A smaller loan also ensures the loan payments can be paid from the rental proceeds. Lender guidelines for new construction include requiring a statement of all hard costs, a closing statement on the purchase of the land, copies of construction notes and trust deeds, and copy of the building and loan agreement and signed contract with the building contractor, and a certificate of occupancy. A pro-forma statement is required on all new properties projecting the income and expenses of operating the building.

CONDOMINIUMS.

Condominiums units have many of the same advantages as single-family residences. With the association dues added to the loan payment, a larger down payment may be required for a break-even cash flow. However, the dues are a good investment, since they usually include the cost of the building insurance, gardener, pool maintenance, and exterior maintenance (such as roof, driveways, and paint).

The investor may need fewer funds for reserves and replacements now that the legislature has stepped in and required that associations comply with specific reserve requirements. The investor and property manager should check that the condominium complex is not currently under litigation and that they have met the legal reserve requirements.

Tenants like the features of the units and the amenities of common areas, which often include tennis, golf facilities, pools, spas, or other items. As rental households become dominated by younger singles and the elderly, a maintenance-free condominium lifestyle will become even more desirable.

Condominiums are more spacious than apartments and often attract tenants because of their increased amenities, more desirable interior unit features, and better neighborhood environment. Many of the neighbors are homeowners, so more overall "pride of ownership" is maintained. Some are built as resort property housing and the space is traded or rented, as in time-share property management. Coupled with enforcement of association rules and regulations, condominiums can be one of the most desirable forms of rental-income property.

Condominium management is a specialized form of property management that can be grouped with non-residential property management. It involves, however, residential knowledge and expertise since it often involves housing for people. Condominiums used for businesses and industry are becoming more popular in some California areas.

The structural composition of the condominium influences the functions, activities and involvement of the property manager. A planned unit development (PUD), townhouse, or other layout affects the type of contracts, fees and maintenance this type of property needs.

. Individual condominium units are treated as single-family residential units in terms of the property being used as an income-producing investment. The additional homeowners' association assessment fees are, however, included as another expense of the property in the qualifying analysis. Loans are placed on a case-by-case basis, as many lenders restrict the number of loans they make in any one complex, usually limiting themselves to no more than 35%

of the total number of units. In the case of condo conversion units, lenders will require a licensed engineer's report and the income/expenses statements for the past two years.



MOBILE HOME PARKS.

Mobile home property management is a segment of the real estate industry that involves several types of management skills. Many communities have ordinances which put these parks under rent control. This came about because many owners live in a different voting district than where the parks are located. The mobile home park tenants vote in local rent control ordinances with little opposition. A common vacancy factor is 5%, with expenses projected as 30% to 35%, and a capitalization rate of around 10%.

The management of these parks involves marketing to a specific target segment of the population. Even though there are mixed-use parks with mixed age groups, most are geared to "Children's Complexes" or "Senior Citizen Parks", or resort communities catering to activities unique to an area or activity. In addition to the management of the people, the parks also administer the sale of utilities to the tenants as a separate billing item.

The laws regulating mobile home park management are different than other residential forms of property management, especially with reference to notice time for rent increases, evictions, and changes in the terms of the tenancy. Although rents are lower, so are many of the services offered compared to other types of rentals.



MULTI-FAMILY.

Multi-Family Properties.

One to Four Units. Small multi-family properties are very popular because they are affordable for the small investor. Many investors can only afford to start with a duplex. Even using the rental income to help qualify for the financing, these smaller properties are within the reach of so many more investors than a 20-unit building.

One to four-unit properties may be detached units, such as 3-on-a-lot, or a duplex behind a house. They tend to appreciate at a moderate rate, providing a fair hedge against inflation. They also provide a steady income over the long term. Smaller properties are less likely to be subject to rent control, as are larger properties. (But some areas of California are trying to include these under rent control ordinances.)

These units are excellent buys for the person receiving funds from the sale of his or her home who needs to transfer the funds into another property to avoid taxable gain. The purchaser can live in one unit and reap the tax advantages of owning income-property from the other units.

When reviewing the performance of these smaller properties, the real expense of operating the property tends to be understated. The cost to manage and maintain the property in terms of time and money can be overwhelming to the new, inexperienced owner.

Single-family homes as an investment have seen healthy activity during the past few years. Lenders have developed guidelines for analyzing the value of these properties, with the help of government secondary agencies, such as the Federal National Mortgage Association. The value of the property is often based on the amount of rental income it can produce. A rent

grid, such as is shown in Chapter 6, is used to determine comparable rents (for the market data approach to value) if enough closely related rental homes can be found. If the income, or capitalization method uses only 80% of the gross rental income, when valuing the property, it is obvious that a lower price will be realized. The maximum loan amount is usually between 70% and 75% of the lender's appraised value (compared to 90% - 95% for owner-occupied homes).

Present leases or other sources of income verification are used so that the property's income can be added to gross income of the borrower, especially if he or she is planning to occupy one of the units. Owner-occupied income property has become more common. If the property's net cash flow is positive, it is added to the borrower's income. If the net cash flow is a negative, it is treated as a long-term debt, even though the purchaser/investor plans to increase rents within immediately to bring the property back to a break-even point.

Investors do not always understand the lender's point of view when analyzing the net income of a property.

For example, a buyer wants to purchase three houses on a lot. The seller has receipts, financial statements, and rental agreements showing the following data:

- * Each tenant has paid a 5% per year increase in rents for the past five years,
- * One tenant has resided on the premises for 17 years, another for 12 years, and the newest for only five years, and
- * The income has been very stable, and turnover virtually nil.

Yet, the lender will still insist on using a 3% to 5% vacancy factor.

Borrowers often do not understand why any vacancy rate is used, when there has not been a vacancy for over five years. However, the borrower has to remember that under a residential month-to-month lease, the tenant can merely give notice and be out within 30 days. Also, these very old move-in dates indicate that little or no deposits were collected at the original move-in time, so the owner bears all the risk of short-term losses in income.

Five to Fifteen Units. These properties have good flexibility in terms of potential resale and for exchange purposes. They are good tax shelters for income earned from other sources.

Due to financing, however, new purchasers can expect the largest negative cash flow from this type of investment. Larger properties can spread vacancy costs over more units. Plus, these properties are often financed with variable rate loans and as loan payments rise, owners pass the increase along to the tenants in the form of rent increases. With smaller properties, there are fewer units to spread the cost between, and the rent increases can cause vacancies if market conditions are not evaluated carefully. Less sophisticated owners tend to pay less attention to rental levels than the professional property manager.

Maintenance costs may be higher, on a per unit basis, than for other properties. Smaller properties usually have less wear and tear, and the tenants tend to do more of the maintenance. Larger properties need regular maintenance crews or an on-site handyman. Turnover costs on these properties can be higher because there is frequently no one readily available to show the vacant unit.

Owners of mid-sized properties are unaware of how heavily their business operation is regulated. It is not unusual for an owner to have a tenant do some maintenance and yard work, plus show vacancies and collect rents. In other words, the tenant acts as an on-site manager in return for a reduction of that tenant's rent or some other benefit. This subjects the owner to the responsibility of having that person treated as an employee instead of an independent contractor, subject to workman compensation claims, unemployment contributions, minimum wage and tax laws, filing quarterly payroll returns, etc.

The financing of larger non-owner-occupied properties will vary from lender to lender. Neither FHMA nor FHLMC will allow cash-out refinances. If a refinance is used to consolidate

loans or meet a balloon payoff requirement, the maximum loan to value is 70% of the current appraised value.

Vacancy factor are usually calculated at 3% to 5%. With the current overbuilding in some areas of California, some lenders have begun applying higher vacancy factors--ranging from 4% to 8%. Expenses are calculated to be 28% to 35%, with higher rates used for furnished units, units 40 years or more older, or if the tenant composition is predominantly singles

Sixteen to Fifty Units. Owners of larger properties, 16 to 50 units, are typically more educated on the employer-employee relationship. Full maintenance work crews and on-site managers have training classes and off-site supervision.

These properties require an on-site manager, by law, and are often subject to rent controls. The tenant selection is done by guidelines set by credit standards, and business techniques are employed. The ownership purpose is appreciation and tax benefits.

Fifty or More Units. These properties are usually developed as a long-term holding. As inflation increases, these properties appreciate at a faster rate than smaller properties. They are often owned and operated by larger investors who directly manage the building themselves.

These larger buildings are professionally run, and maintenance is part of a regular budget item. They are sometimes subject to rent control. The typical owner seeks tax sheltered profits, cash flow, appreciation, equity building up and the other benefits of income property ownership.. Typical expenses include the cost of tax preparation and government forms preparation, as opposed to the duplex owner's time (contributed free of charge) which is not a tax deductible expense of running the property.

Multi-family residential housing is the largest segment of the income-producing investment property management. Almost 40% of all housing units are apartments. They may be owned privately, by government entities, or by institutions. The public housing authorities, collectively, are the largest landlords in the United States, controlling, supervising or regulating over one-half million units. Operations differ between public and private housing as to rents, deposits, damages, and required notice periods. The value factors for apartment buildings include location and neighborhood, nuisances and maintenance and management.

Location and Neighborhood. Proximity of public transportation, reputation of schools, convenience to shopping, types of churches, variety of recreational facilities, and the general tone of the area are important.

Nuisances. Excessive noise, busy streets, crime rates, and smoke or odors from manufacturing plants are detrimental.

Maintenance and Management. The curb appeal (the exterior appearance) affects the ability to attract the high quality tenants. The long-term value of the physical structure is affected by the maintenance of the property. Deferred maintenance would have a large impact on the property value.



MOTEL/HOTEL.

Motel/hotel operations are another type of property management. Professionals are trained in handling conventions, large parties, and the "people" operations associated with the running of the hotel. Large chains usually establish policies and guidelines of operation and often help arrange the purchase of, and financing for, the property and the business. Colleges offer degrees in hotel and restaurant management. The factors that affect value for hotels, motels and lodges are location, appearance, amenities and the income.

Location. Access from freeways or highways and prominence (easily observed or marked for visibility) are of utmost importance to motel-type facilities.

Appearance. The initial appearance of physical facilities is extremely important in attracting and keeping patronage. Therefore, there is more emphasis on clean, modern appearances and on good maintenance programs.

Amenities. The elements that instill customer loyalty include the many features available on or near the facility. These can include a pool, spa, whirl pool, lounge, and room services. Airport pick-up, laundry/valet, and a barber shop also add value. Many motel-type facilities have exchange agreements for patron usage to near-by health clubs, recreation center discounts, or the like, which are part of the valuation.

Income. A motel is more likely to have significant income from sources other than rent, such as food and beverage sales, cable television, vending machines, and the like. These are included in estimating value through the income approach.

MISCELLANEOUS.

Other types of residential property management include those situations where the residence is really a means to another end -- the primary reasons for the property management is not housing. An example would be a corporation-owned mobile home park in the middle of a Mid-Eastern oil-producing city. It may be dormitories on a university. It can be a convalescent or a nursing home affiliated with a religious group or hospital. These kinds of housing are referred to as "institutional housing," because the reason for their existence is the institution which owns and/or operates the housing.

1.5 Professional Organizations for Property Management

PROPERTY MANAGEMENT ORGANIZATIONS

One place to start learning more about the property management profession is by taking a course such as the one this text is designed for. Interacting with other students is also informative and can even spur entry-level job offers. Instructors sometimes receive requests for job referrals from the property management segment of the real estate industry.

Those seeking information about groups in their area should look in the telephone yellow pages under Real Estate Management or contact local firms. It is also helpful to call the local Board of Realtors to find active members. For additional information, write the following:

[American Apartment Owners Association](#)
[Home](#) | [Register Now](#) | [Contact](#) | [Vendor Registration](#) | [Store](#) | [Screening](#) | [Insurance](#) |
[Vendors Forms](#) | [Glossary](#) | [Inspection Guide](#) | [Financing News Forum](#)
(<http://www.american-apartment-owners-association.org/>)

California Apartment Association
(<http://www.caanet.org/>)

About CAA	Government Relations	BizCenter	Magazine/Newsletter
Membership	Reference Library	Education/Events	Media/Communications
Local Associations	Legal	Vendors	Renters

California Apartment Association

California **Apartment Association**

980 9th St Ste 200, Sacramento, CA 0.24mi
(916) 447-7881

International
1250 Eye St., N.W.
Washington, D.C. 20005

http://www.landlord.com/assoc_main.htm



[About NAA](#)

[Government Affairs](#)

National Association of Realtors®
Institute of Real Estate Management
430 North Michigan Avenue
Chicago, Illinois 60611

International Council of Shopping Centers
665 Fifth Avenue
New York, N.Y. 10022

The Greater Los Angeles Apartment Association has the following Member Programs and Services (<http://www.aagla.org/>):

1. Free Legal Assistance
2. Low-cost Tenant Screening — Protect your investment from deadbeat tenants.
3. Free Forms.
4. Political Impact
5. Free Monthly Magazine.
6. Outstanding Vendor Referrals
7. Low-cost Property, Casualty, Automobile and Tenant's Coverage
8. Manager Training and Placement
9. Meetings, Seminars, Trade Shows, etc...

For the Beach area and non-rent control southern L.A. county area: <http://www.apt-assoc.com/>

For Orange County area: <http://aaoc.com/>

For San Francisco area: <http://www.sfaa.org/>

For San Diego area: **San Diego County Apartment Association**

8788 Balboa Ave Ste B, San Diego, CA 92123

(858) 278-8070

<http://www.sdcaa.com/>

The California Apartment Association (CAA) has local level organizations that meet regularly. Helping these groups on committees is a good way to develop opportunities within the field of property management. This is especially true in the buying and selling of income property because so many owner/managers belong to this group. Excellent on-site or maintenance positions are also available from members of this group. The local CAA chapters have several advisory groups for seminars on the legal aspects and management of residential properties. They offer a Certified Apartment Manager® (CAM) certificate for completion of specified courses taught by association members at the organization's offices or local community colleges.

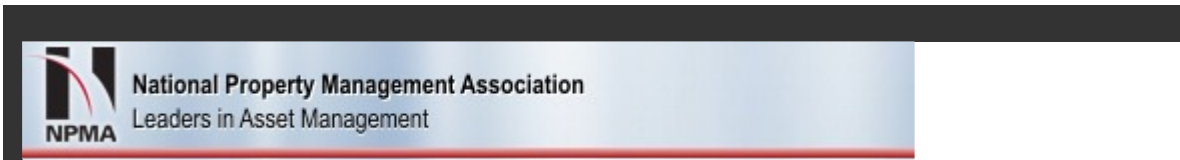


<http://www.irem.org/>



[About IREM](#) | [Join IREM](#) | [Education](#) | [Conferences](#) | [Publications](#) | [JPM](#) | [IREMFIRST](#) | [Public Policy](#) | [Members](#)
[IREM Home](#) | [Chapter Services](#) | [International](#) | [IREM Foundation](#) | [Owners/Investors](#) | [Students](#) | [Media Center](#) | [Site Map](#) | [Contact](#)

© Institute of Real Estate Management. All rights reserved. IREM®, the IREM logo, Certified Property Manager®, CPM®, the CPM key logo, Accredited Residential Manager®, ARM®, the ARM torch logo, Accredited Management Organization®, AMO®, the AMO circle logo, Income/Expense Analysis®, Expense Analysis® and JPM® are registered marks of the Institute of Real Estate Management. In principle and practice, the Institute of Real Estate Management values and seeks a diverse membership. There are no barriers to full participation in the organization on the basis of gender, race, creed, age, sexual orientation, national origin, or disability. Moreover, the Institute of Real Estate Management encourages equal opportunity practices among its members.

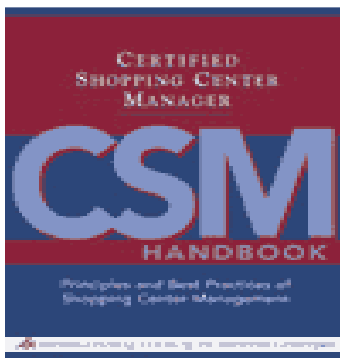


<http://www.npma.org/default.cfm>

The National Association of Realtors® (NAR) group for property management is under their Institute of Real Estate Management® (IREM) division. For property management, they confer professional designations on individuals and organizations who have met their requirements for experience, education and participation in the field of property management. Professional on-site managers can receive the Accredited Residential Manager® (ARM) designation. IREM has also awarded the designation of Certified Property Manager® (CPM) to only 8,700 persons since it was formed in 1933 (as of August, 1988). These individuals handle a total of about 13 million apartment units. They must 1) be a candidate, 2) manage over 300 apartments for five years (three years if working under a CPM), and 3) write a comprehensive management plan for a project. An organization can obtain the coveted Accredited Management Organization® (AMO) designation by meeting the same criteria or having one or more CPM on staff who maintains the auditing, banking, licensing, and bonding requirements.

For non-residential organizations, IREM also awards CPM designations for those who manage 120,000 square feet of office space, or 150,000 square feet of retail space. These CPM's manage a total of over \$600 billion in real estate. Persons specializing in the management of retail space can receive the designation of Certified Shopping Center Manager® (CSM) from the International Council of Shopping Centers.

CERTIFIED SHOPPING CENTER MANAGER® (CSM) HANDBOOK



An excellent resource for shopping center professionals seeking generally accepted principles and practices on shopping center management. Also, a superb tool for anyone preparing for the CSM examination. It closely follows the outline of the certification exam, including key terms, concepts, formulas, techniques, as well as self-assessment tests. Combining concise discussion with practical illustrations, the material is drawn from ICSC and other resources. Use this handbook as a quick refresher, as a study guide and as a constant companion in your professional life.

<http://www.iscm.org.hk/>

The Building Owners Management Association® (BOMA) awards the professional designation of Real Property Manager (RPA) to its members.

<http://www.boma.org/>

CONCLUSION

California represents 25% of the nation's wealth. On the basis of dollars produced, it ranks 6th in the world, just behind Italy, and ahead of Great Britain. It supports one of the largest

employment bases in the world. This employment base, in turn, is the foundation for an enormous financial/banking industry. This industry demands professional management for their property holdings.

Studies show that California has over 50% of households as renters rather than home owners, but is still thousands of housing units short of the present market demand based solely on demographics of population growth. Effective property management is needed to stabilize the properties that are floundering and to efficiently manage all existing real property assets. The greatest challenge, at present, is meeting tenant demands and solving the financial problems of the industry. With fewer funds available to support public housing, and the already deficient number of affordable units, the next several years will be turbulent times in the real estate industry.

EXERCISE:

1. Review the Table of Contents and locate the chapter that most interests you. Identify the chapter number and chapter name.
2. Review the Index and indicate those areas in which you are most interested in acquiring knowledge and skills by listing your top five topics.
3. Select one professional property management designation. Indicate the web address and list the specific criteria (years of experience, minimum levels of education, minimum size properties managed or units managed, etc.) to obtain that designation.
4. Locate an online list of individuals (directory of members) that are physically located where you already own rental property, or an area where you would like to own income property, or nearby, who have obtained the professional designation you indicated in answer #4 showing their contact information.
5. Using the individual from question #4, seek to gain admission to attend one industry meeting in the field where professionals might assist you in being able to learn more about entering the field for employment purposes or for obtaining information for hiring professional management.

CHAPTER 1 QUIZ

1. California's earliest property manager(s) was(were):
 - a. King Charles III
 - b. Captain Portola
 - c. Franciscan Padres
 - d. Native American Indians
2. An early government intervention in California housing was called the:
 - a. Gold Rush
 - b. Indian Land Management
 - c. Mexican-American War

- d. Monroe Doctrine
3. Building codes, ordinances and building material regulations were first enacted largely as a result of the:
 - a. California Statehood Act in 1850
 - b. San Francisco earthquake in 1906
 - c. Colorado River/Salton Sea flooding in 1905-1907
 - d. Great Depression of the 1930's
 4. There was little professional management in California prior to World War I because:
 - a. Residential property was primarily single family dwellings
 - b. Society was mostly agrarian (Rural/farmers)
 - c. Multiple housing units were rare
 - d. All of the above
 5. Banks and Savings & Loans acquired a great deal of property requiring management in the early 1930's and again in the early 2000's because:
 - a. They aggressively purchased property
 - b. A large number of trust accounts were created at that time
 - c. There were large numbers of loan defaults and foreclosures
 - d. The laws were changed to allow institutional real estate purchases
 6. The era when there were plenty of funds, a severe housing shortage, and high demand describes:
 - a. Gold Rush (1846-1849)
 - b. Spanish-American War (1846-1849)
 - c. Statehood (1871-1880)
 - d. Post-Civil War (1880-1889)
 7. A ten-year depression was widespread in California in the late 1800's, followed by a land boom that was a direct result of:
 - a. Foreclosures available
 - b. Employment wages
 - c. Investment analysis consultants
 - d. Marketing campaign
 8. A professional designation for a property manager would be:
 - a. CPM
 - b. RPA
 - c. ARM
 - d. All of the above
 9. The economics for the California rental housing market may best be described as:
 - a. overbuilt with vast numbers of vacant units that will take years to fill
 - b. stabilized with about the same amount of renters as units available
 - c. having a shortage of affordable rental units available for the existing population
 - d. being in equilibrium where qualified tenants match new vacancies
 10. Which is not an advantage of owning single-family rental units?
 - a. Less labor-intense to manage
 - b. Tax benefits

- c. Rarely subject to rent control
- d. Rent control ordinances

The following questions are True (a) or False (b):

- 11. During period of large numbers of foreclosures, such as the Great Depression of the 1930's and the period from 2008-2009, property management services is controlled and managed by financial institutions that concentrate on making professional management profitable.
- 12. The Institute of Real Estate Management awards individuals with the designation of MBA.
- 13. Nationwide Federal rent control prevailed during World War II.
- 14. Condominium associations are usually self managed to efficiently minimize expenses.
- 15. The rebuilding of San Francisco brought positive results for construction, building and property management.
- 16. The early mission system was a form of absentee landlord property management.
- 17. The demand for property management is expected to decrease over the next decade.
- 18. Property management has become easier as more regulations have been repealed.
- 19. A typical specialty field of property management would typically include commercial but not residential housing of any kind (mobile home, nursing home, dorms).
- 20. California housing is predominately single-family, owner-occupied units.

CHAPTER 1 QUIZ ANSWERS

- | | | | |
|-----|---|-----|---|
| 1. | c | 11. | T |
| 2. | d | 12. | F |
| 3. | b | 13. | T |
| 4. | d | 14. | F |
| 5. | c | 15. | T |
| 6. | a | 16. | T |
| 7. | d | 17. | F |
| 8. | d | 18. | F |
| 9. | c | 19. | F |
| 10. | d | 20. | F |