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OCCUPATIONAL & PROFESSIONAL LICENSING ADMINISTRATION

STUDY GUIDE FOR PROPERTY MANAGERS EXAMINATION

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FOREWORD

The District of Columbia Board of Real Estate is pleased to publish the Property Management Study Guide, which is designed to assist applicants in preparing for the Property Manager's examination.

This study guide is intended to provide general information, which is relevant to the contents of all sections of examination. A list of references is also included should more specific information be required.

PEARSON VUE EXAMS

All Real Salesperson & Brokers and Appraiser examinations are now administered by Pearson VUE. Pearson VUE uses EXPro, an electronic examination system that provides candidates with examination results before they leave the assessment center. Examinations are available Tuesday through Saturday.

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Examination fees are $61 for all Real estate candidates and $100 for appraiser candidates. The fee, which will be collected at the assessment center, should be in the form of a certified check or money order made payable to "Pearson VUE". Cash will not be accepted. In addition to fees, real estate candidates must bring proof of education (certificate of completion, expired license, or a certificate of licensure from the original licensing jurisdiction, if required) or an Examination Authorization Letter, issued by the District of Columbia Board of Real Estate. Education documentation must be brought to the assessment center each time a candidate takes the examination. Pearson VUE charges a penalty equivalent to the examination fee for missing scheduled examinations without sufficient notice.

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I. THE MANAGEMENT PLAN

Investors have a wide variety of goals and objectives for ownership in real property. These goals and objectives are different throughout the holding period of the real property investment. The management plan should reflect the goals and objectives of the owner. It should produce the greatest yield when compared to other investment strategies. The management plan is the result of the gathering, analysis and interpretation of all information pertaining to a specific property.

What does a management plan consist of, how is it organized and what does it say? A management plan is made up of seven components and can be organized as follows:

Regional Analysis

Neighborhood Analysis

Property Analysis

Market Analysis

Analysis of Alternatives

Proposed Property Analysis

Investment Analysis

A. Regional Analysis

This section identifies the general economic and demographic conditions and physical trends of the area surrounding the property and determines trends that affect the property.

Statistical data and growth factors to be considered are: population; business and industry; households; employment; tourism and recreation; public improvements and facilities; public transportation and traffic conditions; education; economic stability; political, governmental and social climate; and real estate market.

Statistical data is available from the Federal Government through the Census Bureau, Department of Labor or Department of Housing and Urban Development; and various trade associations such as the Institute of Real Estate Management (IREM), Building Owners and Managers Associations (BOMA), International Council of Shopping Centers (ICSC), National Association of Home Builders, etc. State and local governments are also a source for data through their economic development offices. Local industries and utility companies are additional sources for regional statistics.

B. Neighborhood Analysis

A neighborhood is an area with common characteristics of population and land usage. It may be defined in terms of square miles in a rural setting and perhaps in terms of the immediate vicinity of intersecting major streets in an urban setting. A survey of the population trends is necessary to determine the life-cycle stage of the neighborhood. The characteristics of the population, family unit and economic level will determine the trend of the neighborhood. In analyzing the neighborhood, a thorough inspection of the building's condition and the types of property use is essential to understanding the neighborhood. Lastly, how does the subject property relate to its neighborhood? What types of transportation are available, public or private? Where are such amenities as schools, shopping, hospitals, recreation and employment located in relationship to the subject property?

C. Property Analysis

The only way to accomplish a complete property analysis is to physically walk through the property, inspecting its accommodations, basic architectural design and overall physical condition. How many units (residential) or how much square footage (commercial) does the property contain? What is the desirability of the property? A description of the visual impression presented by the property, its age, the layout of interior spaces and public spaces, exposures, views provided from the space, and fixtures and equipment provided within the space provides a picture of the property.

The physical condition of the building is central to this section. A thorough inspection of the roof, mechanical equipment, masonry and windows should be conducted.

In what condition are the common areas? A thorough review should be made of the current staffing levels and standards of management. What are the existing occupancy levels and what is the operating history of the property? This data should be correlated to serve as a database which may be analyzed and upon which a program may be formulated to enable the owner to achieve the greatest return on the owner's investment and under which the property can be put to its highest and best use.

See also Section III.A. of this Guide.

D. Market Analysis

The measurement of the market is complicated by three factors:

(1) There is no exact unit of measurement. By comparison, stocks traded on the stock market have a price per share.

(2) There is no specific trading center. By comparison, stocks can be traded through the stock exchanges.

(3) There is no systematic recording and reporting of sales. By comparison, stock sales are publicly listed in a daily stock report.

Each property belongs to a specific submarket and the property manager must identify these smaller markets in order to design a management plan for a specific property. Once the submarket has been determined, the size and character of the properties in that market need to be defined. What is the average layout, size, amenities and fixtures provided within the submarket? What is the current price per square foot for the average unit? A comparison of the trends within the general real estate market and review of the history of price and occupancy levels should complete the overall analysis.

The next step is to compile an analysis of the comparables within the market, which entails determining what other specific buildings offer and how they compare or contrast with the property in question.

E. Analysis of Alternatives

After analyzing the property operated on an "AS IS" basis, alternative programs must be studied to determine whether it may be more profitable to alter the property to address the current market trends as determined above, and therefore obtain the highest yield to the owner. Alternative programs may include, but are not necessarily limited to, the following:

(1) Rehabilitation of the building and correction of deferred maintenance without changing the basic plan of the building.

(2) Modernization of the building during rehabilitation by replacing outdated equipment with equipment possessing more updated and modern design and features.

(3) Alterations that cure functional obsolescence or increase earnings. These should be economically feasible. Costs can be amortized and the increase in the value of the property should justify the expense.

(4) Conversion to condominium or cooperative ownership should be examined if a higher yield can be obtained by selling units. This requires a formal appraisal of the project and a feasibility study of the conversion.

F. Proposed Property Analysis

The manager must develop an operational budget for the property. This budget should be a realistic one for the manager and management organization. Through the formulation of a sound budget both the property owner and property manager have a clear understanding of what is expected from each other through the relationship.

The gross rental income of the property should be estimated by establishing a rental schedule. A determination of current vacancy and collection loss levels should have been performed during the market analysis in paragraph D above. Any potential sources of additional income, such as laundry, parking, non-residential space, etc., should be specified.

The gross expenses necessary to operate the property should also be determined. Expenses fall into two categories, fixed and variable. Fixed expenses are those which are regular and recurring. These may include such expenses as real estate taxes or insurance contracts. Variable expenses are incurred through the operation of the property. These include, but are not necessarily limited to, utility costs, ground maintenance contracts, advertising, etc.

Planning for the financial administration of the property is not the only function of the property manager. In addition, the manager must plan for the day-to-day operation of the property. A thorough review of the on-site personnel and an evaluation of the work and tasks to be performed must be determined. Establishment of clear policies and procedures is essential to the continuous effective day to day operation of the property.

G. *Investment Analysis*

The property manager needs to be familiar with sources and techniques of financing, the appraisal process, methods of depreciation, income tax as it relates to real estate and the calculation of cash flow.

If improvements or alterations are recommended, a financing plan to complete these items is necessary.

When calculating cash flow, it is necessary to examine both the before-tax and after-tax projections.

Cash flow is best summarized by the following:

Gross Scheduled Rental Income

Minus	Vacancy and Credit Loss
Equals	Effective Gross Income (EGI)
Plus	Other Income
Equals	Gross Operating Income (GOI)
Minus	Operating Expenses
Equals	Net Operating Income (NOI)
Minus	Debt Service
Equals	Cash Flow

The analysis should conclude with an estimation of the property's value before and after any improvements or alterations.

H. *Summary*

The management plan is a map for the total operation of the property. It details the manner in which the physical, fiscal and operational requirements are to be met. In summary, the specific steps for preparing the management plan are (1) the regional analysis, (2) the neighborhood analysis, (3) a detailed analysis and inspection of the property, (4) the market analysis, (5) an analysis of alternatives, (6) proposed property analysis, and (7) the investment analysis.

II. FINANCIAL ADMINISTRATION

A. *Budgeting Process*

(1) Purpose of a Budget To establish a solid financial foundation for the operation of a property.

(2) Components of a Budget

a. Income
b. Operating expenses
c. Debt service
d. Capital replacement reserves
e. Owner objectives

(3) Glossary of Budget Terms

a. Debt Service:	Periodic payments of principal and interest on a loan.
b. Cash Flow:	Amount of cash available after deducting from income, operating expenses and mortgage principal and interest.
c. Net Effective Income:	Income figure after totalling gross income, less vacancy/creditloss, plus miscellaneous income.
d. Gross Potential Income:	Total scheduled rental income.
e. Net Operating Income:	Net effective income less operating expenses.
f. Security Deposit:	An established amount of money advanced by the tenant, held by the owner for a specific period of time, to be applied towards possible damages and assurance of compliance with lease terms by tenant.
g. Capital Expenditure:	One time major purchase that extends the economic life of the asset.
h. Capital Reserves:	Funds set aside for capital expenditures.
i. Capitalization Rate:	Profit index for a property, usually expressed as a percentage. The larger the rate the more profitable the investment of the property.
j. (ROI)-Return on Investment:	Measure of profitability determined by ratio of money invested to net income after taxes.
k. Operating Expenses:	Costs related to the maintenance, upkeep and repair of the building's equipment or other structural components and fixed expenses.

(4) Budget Problems

The total annual gross scheduled income for a property is $100,000 per annum. The vacancy/bad debt rate is 5%. Total operating expenses are projected at $55,000.

a. If utilities total $37,000 what percentage of the total operating expenses does this represent?

b. After deducting operating expenses, how much income is available for debt service and reserves?

c. If this property has 200 units, what is the per unit operating expense?

(Answers found in Section C)

B. Lease Administration

(1) Components of Valid Lease

a. Names of tenants (lessee) and competent party signatures.

b. Name of Property's owners or agent with authority to lease.

c. Legal address of leased premises.

d. Statement of rental amount, including time and place of payment of rents, deposits, if any, and time period to which rent applies.

e. Legality of use.

f. Commencement and expiration date, with any resident options after the initial term expires.

g. List of rights and obligations of both parties (lessee and lessor).

(2) Glossary of Leasing Terms

a. Gross Lease: Tenant pays a fixed rental and the owner pays all other expenses for the property. (Most often used with apartments.)

b. Net Leases:

(i) Net	Tenant pays the base rent plus some or all of the real estate taxes.
(ii) Net-net	Double net.
(iii) Triple net	In addition to the base rent, tenant assumes payment of all expenses connected with operation of the property: all services, including cleaning, insurance, utilities, maintenance, and contract services (e.g., landscaping), and perhaps even the lessor's mortgage payments. The gross/net distinction is more of a continuum than a strict division. Typical of office and industrial properties.

c. Percentage Lease: Tenant pays fixed rental plus percentage of gross income in excess of a predetermined amount.

d. Escalation Clause: Rental adjustments based on external economic factors, such as Consumer Price Index, property tax, or changes in cost of overall operating expenses.

e. Leasehold Estate: Tenant is granted the right to occupy the owner's property for a specified period of time.

f. Types of Leasehold Estates:

(i) Estate for years — Tenant is granted right to occupy for a specified period of time. When the time period (term) expires, the estate terminates without notice. Tenant must surrender the property to the owner.

(ii) Estate for Period-to-Period — Tenant is granted right to occupy for a term that automatically renews. One of the parties to the lease must give notice.

(iii) Tenancy at Will — Tenant is granted right to occupy for an indefinite period of time. This estate is terminated by the death of either party.

(iv) Tenancy at Sufferance — Tenant is granted right to occupy initially but remains on the property after the expiration of the leasehold interest without consent of the owner.

(3) Lease Calculating Problems

a. Office Space is leased with the following dimensions: 50 x 80 feet at $11.25 per square foot.
The monthly rental is: ________________.

b. Property of 7000 square feet; rent is $3000.00 per month. The rate per square foot is ________________.

(Answers found in Section C.)

C. Answers to Budget and Lease Problems

(1) Budget

a. 67%

b. $45,000.00

c. $185.00

(2) Lease

a. $3750.00

b. $5.14

III. FACILITIES MANAGEMENT

A. Physical Inspection

The first task in analyzing a property is to perform a physical inspection to determine its overall condition.

This inspection should be performed prior to accepting a management contract in order to determine the time and manpower necessary to effectively service and manage the property. Inspections should be performed utilizing a check-list to ensure thoroughness and to be saved in the management office for future reference.

Inspections assist the property manager to prioritize projects and become a critical element in compiling the management plan discussed in Section I above.

The property also should be analyzed in comparison to its competition and current market forces. For example, the property manager should consider a number of questions, including:

(1) Is there sufficient parking?

(2) Is the lobby appropriate for the building's use?

(3) Is the landscaping plan sufficient?

(4) Should tenant amenities be added, such as a health club or swimming pool?

(5) Are the common areas pleasant in appearance and roomy?

(6) Is there sufficient heat, air conditioning and ventilation for the facility?

A facility's physical problems are caused by three sources: deferred maintenance, functional obsolescence and economic obsolescence.

(1) Deferred Maintenance - Also referred to as curable physical deterioration. Deferred maintenance involves delaying needed repairs and maintenance to save money. Time, however, will not cure deferred maintenance. Deferred work must be performed at some point in the future. Examples of deferred maintenance are painting a corridor, sealing a leaky roof or repairing cracks in a sidewalk.

(2) Functional Obsolescence - Functional obsolescence can be curable or incurable. Areas of a building which have become obsolete by present building designs, by current construction methods or by market demands are causes of functional obsolescence. It results in a direct negative impact on the rents attainable at a building. Examples include:

a. Loading docks that are too small.

b. Elevator doors that operate manually.

c. Apartment units without storm windows.

(3) Economic Obsolescence - Economic obsolescence can only be incurable and also has a direct negative impact on the rents attainable at a building. This obsolescence is caused by external forces on a property. An example would be a medical office building that becomes obsolete because the neighboring hospital has closed.

B. Service Contract Negotiation

An important element in operating a facility is contracted services. These services are provided for the tenant's benefit and safety. Common contracted services include janitorial, elevator maintenance, snow removal, and landscaping maintenance. Typically, these services are established with a written agreement between the managing agent and the contractor and could include the following:

(1) Work to be performed.

(2) Number of personnel required.

(3) Frequency of the work performed.

(4) Specialized equipment necessary.

(5) Special skills or training required.

(6) Insurance requirements.

(7) Hours for work to be performed.

(8) Special requirements for the particular facility.

(9) References of contractor.

(10) Contract duration.

(11) Cancellation clauses.

(12) Cost.

Contracts should be in writing and specific in scope and requirements. This helps eliminate any misunderstandings between the property manager and the contractor for services to be rendered. When seeking numerous bids for a project, it is important that all prices be based on the same information and specifications. Often it is helpful to hold a pre-bid meeting, in which all prospective bidders review the work to be performed at the same time, with the property manager. Utilizing this format, a property manager can be sure the same information is conveyed to all bidders.

C. Energy Management

All properties, office, residential, retail or industrial, must be evaluated for energy efficiency on an on-going basis. Even when energy prices are well below their peak levels, energy saving ideas must be evaluated because technology improves and often costs to implement energy saving measures decline. Efficient energy usage can increase a property's value and can also be an effective marketing tool in attracting new tenants or renters.

Any energy management program consists of four elements:

(1) investigating the current types of equipment and building materials utilized to construct and operate the facility;

(2) evaluating the energy savings methods available;

(3) implementing the energy saving method; and

(4) communicating the energy savings to your owners and tenants.

(1) Investigate the current types of equipment and building materials utilized to construct and operate the facility. Collect data on current energy consumption levels for each piece of equipment. Calculate the energy lost through windows, poorly fitting doors, and walls and ceilings without proper insulation. Also collect information on the lighting systems. In office buildings, lighting costs can account for the largest single source of energy consumption.

During this analysis, you will need to compare various energy sources. Some equipment utilizes electricity, while other equipment uses oil or gas. Electricity is measured in kilowatt-hours, oil in gallons and gas in therms, so it will be necessary to evaluate energy consumption with similar units in order to compare all the equipment or building materials. Conversion factors are as follows:

ENERGY SOURCES	MEASURED IN	ENERGY VALUE IN BTUS (BRITISH THERMAL UNIT)
Coal		
Anthracite	lb.	13,900 Btus
Bituminous	lb.	14,000 Btus
Subbituminous	lb.	12,600 Btus
Lignite	lb.	11,000 Btus
Heavy fuel oils and middle distillates		
Kerosene	gal.	134,000 Btus
No. 2 burner fuel oil	gal.	140,000 Btus
No. 4 heavy fuel oil	gal.	144,000 Btus
No. 5 heavy fuel oil	gal.	150,000 Btus
No. 6 heavy fuel oil, 2.7% sulfur	gal.	152,000 Btus
No. 6 heavy fuel oil, 0.3% sulfur	gal.	143,800 Btus
Steam	lb.	1,390 Btus
Gas		
Natural	therm	100,000 Btus
Liquefied butane	gal.	103,300 Btus
Liquefied propane	gal.	91,600 Btus
Electricity	kwh	3,413 Btus

It is also necessary to collect information on the cost for electricity, oil or gas. Remember that prices can fluctuate, season-to-season, month-to-month or even week-to-week. For example, utility companies often charge one price for electricity during the winter months and a higher price during the summer months. This occurs because of the large usage from air conditioning demands.

Because energy costs fluctuate, it is often more valuable to focus on energy consumption rather than cost. Consumption can be found on your utility bills and is expressed as kilowatt hours for electrical usage, cubic feet for water, gallons for oil and therms for gas.

Lastly, when evaluating energy consumption it is important to keep in mind that some winters and summers are worse than others. For example, during one winter the average daily temperature may be 38°F, while another may be 45°F. This temperature difference may have a significant impact on energy savings. As a result, a degree-day system was established to compare temperatures from different years. A degree-day is defined as the difference between the average daily temperature (high temperature plus low temperature divided by 2) and 65°F. For example, if on a particular winter day the high temperature were 45°F and the low 25°F, then the degree day would be:

$$\text{Degree day} = 65 - \frac{45 + 25}{2}$$

$$\text{Degree day} = 65 - \frac{70}{2}$$

$$\text{Degree day} = 65\text{ F} - 35\text{ F}$$

$$\text{Degree day} = 30\text{ F}$$

By adding all the degree-days for a particular winter season, a comparison of different winters can be determined. Similar comparisons can be made for summer seasons.

(2) Evaluate the energy saving methods available. These should be based upon cost to implement and payback period. Some energy-saving methods will cost little or nothing to implement. For example, turning down a thermostat from 72°F to 68°F will cost nothing but will save energy immediately. Adding an insulating blanket around a water heater will cost very little, but will immediately save energy.

Other energy saving methods will require a larger cash outlay and require the property manager to evaluate the payback period. The payback period is defined as the amount of time required for the cost of the energy saving method to be recouped through dollars saved.

$$\text{Payback period} = \frac{\text{cost to implement energy saving method}}{\text{value of energy saved}}$$

For example, if it costs $2,000 to implement energy saving light bulbs and would save $1,000/yr, the payback would be:

$$\text{Payback period} = \frac{\$2{,}000}{\$1{,}000/\text{yr}}$$

Payback period = 2 years

By calculating the payback period, the property manager can provide the property's owner with valuable information to determine if the energy-saving method is a worthwhile investment.

Property managers must also evaluate current financing options for energy-saving ideas. In some areas, utility companies will pay a portion of the energy saving method directly. Other programs may include financing at a reduced interest rate.

(3) Implement the energy-saving method. Once an energy-saving method has been decided upon, it is important to purchase and install it as soon as possible and benefit from energy saved and expenses reduced. Once the energy-saving method has been installed, it will be important to monitor the energy savings. Begin to calculate and tabulate the actual energy saved from reduced utility bills. Create charts and graphs, when possible, demonstrating the savings.

(4) Communicate the energy savings to your owners and tenants. Let people know what you have accomplished and tell them what you have saved. This is a very important element in any energy saving program but it is often overlooked or forgotten. Post notices on bulletin boards or circulate a newsletter to your tenants to help promote additional energy savings.

D. Maintenance

Maintenance is a fundamental component of effective management and helps ensure a property's investment success. Maintenance can be defined as a program to preserve and prolong the useful life of a building and its equipment. Lack of maintenance can lead to tenant dissatisfaction and can project a negative impression of the facility.

Property managers generally do not perform the actual maintenance tasks, such as repairing an exhaust fan or a broken door lock. However, property managers must be able to recognize problems and formulate solutions. This includes evaluating the cost effectiveness of various alternatives to resolve a particular problem. The building owner's goals and objectives for a facility become important considerations.

Maintenance decisions can be broken down into the following categories:

(1) Preventive Maintenance - Professional property managers are trained that most major maintenance problems can be prevented through an effective preventive maintenance program. Preventive maintenance can be defined as a preplanned, routine, and systematic schedule of inspecting, maintaining and repairing a facility and its equipment. As a result, a building can operate at peak efficiency because problems are recognized and solved before they become expensive and dangerous. Examples of preventive maintenance include:

   a. Changing filters on a heat pump unit before the winter and summer season.
   b. Inspecting a roof every six months for damage to the membrane and flashing.
   c. Inspecting the hoist cables on an elevator for damage or excessive wear.

   Developing an effective preventive maintenance plan includes:

   a. Assessing the facility's and equipment's needs.
   b. Compiling a list of all equipment and areas requiring inspection and maintenance.
   c. Estimating the time required to perform each duty.
   d. Evaluating your personnel to assign each duty.
   e. Recording the results of each preventive maintenance task when complete and retaining the same for future reference.

(2) Curative Maintenance - No matter how detailed and systematic a preventive maintenance program is developed, problems will arise which require immediate repair. The property manager should assess the problem, determine a solution, and decide if the repairs should be performed by building employees or contracted services. If contracted services could be utilized, a list should be compiled of various services and telephone numbers. Some contracted services could include:

   a. Electricians
   b. Plumbers
   c. Janitorial workers
   d. Carpet cleaners
   e. General contractors
   f. Roofers

   With such information available, when an emergency arises, the property manager can make decisions to resolve the problems and contact the appropriate contractors quickly for assistance.

E. Risk Management

One responsibility a property manager must undertake is understanding and evaluating appropriate insurance coverages for a facility. In this capacity, the property manager assumes a risk manager's duties. Various risk possibilities must be considered and the potential damage or liability evaluated to determine which types of insurance are necessary and what are the appropriate coverages.

Insurance is a process in which the building transfers its risk to a third party, the insurance company. The building pays a premium to the insurance company to assume that risk. When an incident occurs, the insurance company then pays out based upon the limits of coverage and provisions.

A facility can face many risks. Some types of insurance available to protect the facility include:

(1) Fire and extended coverage - This includes coverage in the event of fire, lightning, wind, hail, explosion, riot, aircraft, vehicles and smoke.
(2) Theft/crime - Provides coverage for dishonesty, disappearance or destruction of money.
(3) Boiler and machinery - Provides coverage for major repairs or replacement to a building's mechanical equipment.
(4) Rental loss - Provides coverage for loss of rental income due to some disaster within the facility.
(5) Catastrophe - Provides coverage for incidents to adjacent property caused by negligence with respect to the managed property. An example would be an explosion.

(6) Earthquake - Provides coverage in the event of an earthquake and the damage caused by seismic activity.
(7) Plate glass - Provides coverage for broken windows.
(8) Liability - Protects the owner and managing agent against negligence from personal injury or property damage owned by others.
(9) Excess liability - Extends coverage carried under liability policy.

A property manager must also consider insurance for employees working at the facility. These include:

(1) Worker's compensation - Required by law. Protects an employee injured on the job.
(2) Bonding - Protects against a loss due to theft, dishonesty or forgery.
(3) Errors in judgment or representation - Protects the property manager from some unforseen occurrence resulting from negligent operations.
(4) Automobile (while driving to the site) - Protects employees driving from building site to building site.

Other forms of insurance are available which the property manager may want to consider.

One concept a property manager should also consider is co-insurance. Since it becomes very expensive to insure a facility for 100% of its value, insurance programs are available in which the property owner shares the risk with the insurance company. In the event a major catastrophe occurs, it is unlikely that the building will be completely destroyed. For example, after a major fire, the building's foundation usually remains intact. As a result, many property managers find it prudent to secure an 80% co-insurance policy. In this situation, the insurance company pays the first 80% of the insured value. For example, if a building is insured for $1,000,000 and a loss occurs valued at $500,000, then the insurance company will pay the full $500,000. Should the same building with the same insurance coverage experience an $850,000 loss, then the insurance company will pay only $800,000, or 80% of $1,000,000. The building owner would be responsible for the remaining $50,000.

Because a property's value can increase quickly, it is extremely important to re-evaluate insurance coverages often. In some cases, a property's value can double in just a few years. If insurance coverage is not increased as the property's value increases, the property could be placed under considerable risk of not being repaired should a catastrophe occur.

Insurance coverage secured by the property manager will not cover the tenant's personal property and liability. It will be the tenant's sole responsibility to secure this coverage and a prudent property manager will require documentation from each tenant that such coverage has been obtained. One form utilized to demonstrate coverage is called a Certificate of Insurance. This form is obtained from the tenant's insurance agent. Similarly, when a property manager hires a contractor, a Certificate of Insurance should be obtained to ensure that coverage has been obtained by the contractor should an incident occur.

F. Capital Expenditures

Capital expenditures differ from maintenance and repairs in a number of ways. First, capital expenditures are intended to extend the useful life of the facility. One example would be replacing a roof. On the other hand, maintenance and repairs are intended to maintain an asset's ordinary efficiency and usage over its lifetime. Maintenance and repairs help prevent long term disruption in operation and service.

Second, capital expenditures are capitalized for tax purposes. This means that the capital expenditure is depreciated over its useful life. For example, if a new roof costs $40,000 and is intended to last 20 years, then it may be depreciated at $2,000 per year. Maintenance and repairs are expensed for tax purposes. This means the full maintenance or repair cost is deducted for tax purposes at one time.

Some circumstances will arise in which it is unclear if a project is a capital expenditure or repair. In these circumstances, the property manager should consult the owner's accountant.

G. Marketing

A few decades ago, marketing office space, warehouses, or apartments consisted solely of placing a sign in the building's window or placing a newspaper advertisement. However, with current competition levels, leasing or renting space requires a much more managed process involving thorough planning and marketing. A property manager's role in marketing becomes one that initiates action rather than responds to inquiries. An immense amount of capital is lost in vacant space which can quickly bankrupt a project.

To respond to these needs and requirements, a marketing plan should be established for every project. Its purpose is to direct the course of action to lease or rent the facility and must focus on a number of points including:

(1) Supply of competitive projects.
(2) Market demand for vacant space.
(3) Market rental rates.
(4) Typical lease terms.
(5) Types of tenants who would be interested in space.

Based on thorough knowledge of the competition, the project's saleable features can be identified. All competitive projects should be analyzed in comparison to the subject facility. Strengths and weakness should be recognized. For example, does a competitive project offer a health club at its apartment building while the subject facility does not?

An understanding of demand for space will assist in determining the timeframe anticipated to lease space in addition to determining the effectiveness of the marketing program. For example, if 5,000 square foot blocks of office space generally lease within 3 months in competitive projects, the subject project should demonstrate similar results. If the subject project's space remains vacant beyond this timeframe, then the marketing plan should be re-evaluated.

Rental rates become the component whereby the market differentiates between the strengths and weakness of various projects. Projects with better amenities or location should receive high rates. The market will be willing to pay a "premium" for convenience or desirable amenities. For example, an office building located on the outskirts of town generally should not attempt to charge the same rental rates as a similar facility in the central business district (CBD).

Typical lease terms are also important features. In a weak market, landlords will consider lower rental rates for apartments or offer lease concessions to office tenants, such as rental abatements or construction allowances. If the market generally demands 3 months free rent on a 5-year lease and the subject project is offering 5 months free rent on a similar lease; the property manager would not be maximizing income potential for the owner.

Lastly, analysis of potential tenants who could exhibit interest in the apartment or office space must be performed. For example, families with school-age children generally prefer apartments in good school districts with recreational facilities. Apartments located in the central business district might appeal more to people who work nearby. Recognizing the market that would be interested in the project and directing the marketing efforts at that market should minimize the vacancy time and maximize the investment made in reaching and securing that market.

IV. LAWS, RULES, AND REGULATIONS REGARDING PROPERTY MANAGEMENT

A. General

The District of Columbia Board of Real Estate, composed of nine members including a chairperson, is the body that has the authority to make regulations and rules for the Property Managers Examination. The Board, with approval of the Mayor, dictates the time and location for taking the examination. It is important for the individual taking the examination to complete the proper forms and pay the required fee prior to the test. The Real Estate Board must be notified within thirty days of any change in the information provided on the initial application. Further, once licensed, the property manager licensee must advise the Mayor in writing within fifteen days of any judgment entered against him or her by a court of competent jurisdiction in a criminal or civil proceeding.

B. Sale and Conversion Law

The Department of Consumer and Regulatory Affairs is an agency of the District of Columbia Government. Within that department is a very important office with which property managers should become familiar. It is called the Condominium and Cooperative Conversion and Sales Branch and it oversees the sale of all rental property and the conversion of multi-unit buildings to cooperative and condominium use.

It, along with the Rental Accommodations and Conversion Division (the "RACD"), acts to protect the rights of landlords and tenants. The RACD is charged with enforcing the law and regulations of the Rental Housing Act of 1985. Properties that are exempt from the requirements of the Rental Housing Act are also exempt from the rent stabilization (rent control) portion of the Act. Likewise, a property subject to regulation by the RACD may be exempt from the rent stabilization provisions if the ownership does not exceed 4 units. Every rental unit in the District of Columbia which is not exempt from the rent stabilization provisions of the Rental Housing Act must be registered with the RACD. This is the only District of Columbia agency which requires such registration. A curious provision of the Rental Housing Act of 1985 is that those who provide rental housing are officially known as "housing providers". The Rental Housing Act provides that rents may be increased under guidelines, one of which allows tenants to challenge increases before they are implemented. In addition, the landlord is sometimes permitted to reduce those services provided to tenants, but as provided by the Rental Housing Act of 1985, he or she must receive a final order issued by the Rental Accommodations Office. A reduction in service prior to receipt of the final order is a violation of the Act. In order to qualify and implement an authorized increase, a landlord's property must be in substantial compliance with the D.C. Housing Code.

Under current rent control provisions, the landlord is entitled to a rate of return of 12% on his equity. Equity is described as the difference between the property's assessment and any encumbrances (mortgage loans).

Under the Rental Housing Conversion and Sale Act of 1980, as amended, the owner of every residential property who wishes to sell it must first offer it to the tenant(s). Upon receiving notice of the proposed sale, the tenant(s) have a statutory number of days to respond and to register their intentions to negotiate to purchase the property. For example, tenant(s) residing in a property of 5 or more units would be allowed 45 days in which to form and register the existence of a legal entity to purchase the building. They may desire to take title as a for-profit or non-profit corporation or as a partnership. Obviously, a group of tenants purchasing a multi-unit building could not form a sole proprietorship.

C. Housing/Fire Codes

The District of Columbia Housing Regulation Division involves itself with the maintenance and condition of residential buildings and has the authority to assess fines for non-compliance. The Housing Code (also known as the Housing Regulations) is enforced in multi-family buildings and encompasses many areas, such as minimum heating and water temperatures. A residential building owner, as a matter of law, must provide a daytime temperature of a minimum of 68°F and domestic hot water at a minimum of 120°F. The Housing Code requires locking devices on exterior doors of multi-family buildings. Smoke detectors are required outside of bedroom doorways in all rental housing. The Housing Code regulates almost all aspects of residential housing, with the exception of financing and defective microwave ovens. It is also important to remember that in order to operate any building in the District of Columbia with two or more units, one must first obtain a certificate of occupancy.

It was previously mentioned that a smoke detector is required under the Housing Code, and this same provision appears in the District of Columbia Fire Code. Other important elements of fire safety dictate that each resident of a dwelling establish for himself a safe and quick exit route from his dwelling in the event of fire. Many multi-family buildings have policies for building staff to follow in the event of a fire to minimize the possibility of injury. First and foremost, the Fire Department is to be notified either by phone or by use of the Fire Notification Station located in public areas outside of the building. One must be alert when pulling a fire alarm inside a building to note whether it will alert the Fire Department directly or whether it is simply activating an interior alarm bell alerting residents of the building. Most interior alarms systems only activate an alarm within the building.

D. Zoning Laws

Another item that affects real property is zoning laws. Although zoning laws do not regulate such things as site elevation or depreciation, they surely impact on price, use and financing considerations. One should never embark upon the purchase of a building until competent opinions are received on just how the property can be used. A building may be currently used in a way that does not conform to existing zoning laws (a non-conforming use) and the anticipated use may be prohibited by the law. Check first to be sure that the use you intend is authorized under the existing zoning laws.

E. *Leasing*

Licensed property managers supervise many types of buildings: residential, commercial, retail and industrial just to name some. One should have an acquaintance with the terms used in leases which establish the relationship between the landlord and the tenant. For example, the property manager will hear the terms "net lease", "double net lease", and "triple net lease". The concept of the net lease will require the tenant to pay an expense directly or be passed through to the tenant by the landlord as additional rent. In a "net lease", the tenant pays the base rent plus some or all of the real estate taxes. In a "double net lease", the tenant pays net plus insurance premiums agreed on in the contract. In a "triple net lease," in addition to the base rent, the tenant assumes payment of all expenses connected with the operation of the property: all services, including cleaning, insurance, utilities, maintenance, and contract services (e.g., landscaping), and perhaps even the landlord's mortgage payments.

An example of an item that is usually passed through to the tenant for reimbursement would be that for a sidewalk replacement by the D.C. Government. This is referred to as an "ad valorem tax".

It is also important to know, in general terms, that the sale of a property which is under a long-term lease does not terminate that lease. This is especially true in the District of Columbia under residential leases. For example, a tenant rents an apartment under a three-year lease, and during the first six months, the landlord sells the building. This sale will have no effect on the lease and the tenant is free to use and quietly enjoy the apartment until the lease terminates.

Another term the property manager should know is "constructive eviction" and what constitutes its occurrence. Constructive eviction takes place when the landlord commits any act which is legally equivalent to produce the same result as an actual eviction. Similarly, constructive eviction releases the tenant from the obligation to pay rent.

The instrument that conveys use of rights but not ownership of real estate is called a lease, and the law that requires these contracts to be in writing in order to be enforceable is called the Statute of Frauds. In the District of Columbia, most residential lease contracts permit assignment only with the approval of the landlord or his agent. Should consent be given, the person to whom the lease is assigned (the "assignee") becomes liable to the landlord. When a lease expires (whether assigned or not), if the tenant remains in possession and rent is accepted, this person is a "holdover tenant".

F. *Rental Applications/Landlord and Tenant*

There are times when a prospective tenant's rental application is not accepted by the property manager. Several valid reasons to reject an application in the District of Columbia are: adverse credit references, possession of a pet, and insufficient income references.

However, once the landlord and tenant relationship is established, certain laws and procedures must be followed to maintain an equitable balance. To illustrate this point, it is sometimes necessary to bring suit against a tenant for non-payment of rent. The tenant when answering this complaint may request a jury trial, in which event, the Landlord's attorney will ask that the rent be paid into the registry of the court. This is known as requesting a protective order. It should be noted that a management agent must be represented in the District of Columbia Landlord and Tenant Court by an attorney, because of court rules and because the manager must refrain from offering legal advice.

Property managers and resident managers are permitted to collect security deposits in the District of Columbia. However, these deposits must be maintained in an escrow account. By statute, notification (to the tenant) and reimbursement of the security deposit must take place within a 45-day period after the tenancy terminates. Deductions from the deposit are permitted for back rent, late charges, other unpaid financial obligations, and the repair of damage to a rental unit, other than repair costs necessitated by normal wear and tear. Whereas late payment of rent is grounds to charge a tenant a late fee, discoloration of walls and/or ceilings is not. This is an example of normal wear and tear.

Resident managers who violate a property manager's instructions to follow the law may find their employment terminated, in which event the resident manager would be obligated, within 15 days of such termination, to so advise the Mayor of the District of Columbia.

G. *Wage and Hour Laws*

Under the Rental Housing Act of 1985 (the current rent control act) employees working in rent controlled properties may be paid a minimum of $3.50 per hour. This amount does not exceed the federal minimum wage guidelines, but if it did, employers would be required to pay the District's prescribed minimum wage for this specific category of employee.

There is also a requirement for the employer to maintain a written record of the employee's working hours in a daily log and to pay overtime wages when the hours worked exceed 40. Also, the employer is required to pay terminated employees within one working day.

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