

Semester 2: 2017

# PROPERTY MANAGEMENT

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## Week 1: Introduction to Property Management

### Property Management

#### What is it?

Property management can be defined as, the art of maintaining and improving (where appropriate) a property asset on behalf of another person or entity to optimise its utility, serviceability and functionability for the purposes of maximising efficiency (generally measured in terms of profits and/or yields).

#### Primary Functions of Property Managers

- Achieve objectives of owner
- Generate income for owner
- Preserve or increase value of investment property

#### Property Managers Role

- Versatility; the ability to play many roles
- Specialisation; for various types of properties
- Licensing requirements; protection of Owner's funds (hold some form of real estate licence)

#### **What is a Property Manager?**

1. As employees of an owner of extensive properties (a portfolio)
2. As an independent, third party hired by (several) owners to undertake responsibilities set out in the terms of a management contract
3. An employee or contactor working for Real Estate Agencies

In each case a property manager is responsible for the maintenance and daily operations of physical building or property investment.

#### Duties of a Property Manager



### Rent

Property managers are responsible for:

- Setting the rent
- Collecting the rent
- Adjusting the rent

### Tenant

Property managers are the main point of contact for tenants when:

- Finding tenants
- Screening the tenants (credit history etc.)
- Handling leases
- Handling complaints / emergencies
- Handling move outs
- Dealing with evictions

### Maintenance and Repairs

Property managers are responsible for the physical management of the property including:

- Maintenance; preventative and corrective maintenance of building services, amenity and appearance
- Repairs – regular and emergency repairs

### **Classifications of Real Property**

Begins with the land surface, then owners right to the air above an soil/minerals beneath plus anything permanently attached to the land = improvements.

Structures built on real property:

1. Residential
2. Commercial
3. Industrial
4. Special purpose (Nursing homes, Hotels, Airports, Schools)

### **Growth of Professionals in Property Management**

#### Code of Ethics

- Golden Rule
- Honesty and integrity
- Included in written policies
- Accreditation institutes: Real Estate Institute Victoria (REIV) and Royal Institute of Chartered Surveyors (RICS)

## **Nature of Relationships**

- Employer - Employee relationship
- Principle – Agent relationship (the main one we will be focusing on)
- Trusts

## The Principle - Agent

Who are the Principle and the Agent?

- Principles (Shareholders/Owners) own most of the property
- Managers (Agents) manage the property on behalf of the absentee owners
- Owners and Managers are separate, this separation of ownership and control allows moral hazard to occur

Owner-management conflict

- Managers have incentive to consume perks as their ownership share declines
- Perks take monetary and non-monetary form
- Perk consumption a problem because owners have a residual claim on firm cash flow

## **The Management Contract**

Identification of the parties and the property:

- Parties vary
- Identifying the property
- Exclusions (Hospital; a flower shop at the bottom of the building may be excluded from the property management)

Contract Period:

- Terms vary
- Termination

Management Responsibilities:

- Monthly reports and disbursements
- Handling funds
- Expenditures
- Marketing Costs

Owners Responsibilities:

- Payroll
- Insurance
- Purchasing
- Building repairs
- Advertising

Management fees:

- Flat or fixed fee versus percentage fee versus other fees
- Commissions to outside leasing agents
- Early termination
- Antitrust Issues; Australian Competition and Consumers Commission(ACCC)

## **Week 2: Residential Property Management**

### **Housing Structure and Tenure Type**

#### **Structure**

- Separate Houses - 72.9%
- Semi-detached, row or terrace, townhouse - 12.7%
- Flats, apartments - 13.1%
- Caravan - 0.3%

#### **Tenure Type**

- Owned Outright – 31.5%
- Owned with a mortgage – 34.5%
- Rented – 30.9%

### **Investors**

#### What do investors look for?

- Location/land
- Condition
- Building style/design
- Allotment size
- Maintenance – low maintenance is ideal
- Appliances
- Development potential

#### Rental Vacancies

- Rent at 5-6% is not ideal for owners as it is hard to find occupiers
- Looking for low rental vacancy rates – 2.8% March 2016 (Good for land owners as they won't have an issue finding an occupier)

### **Tenants**

#### **Tenants are seeking:**

- Security
- Well maintained dwelling
- Quiet enjoyment
- Stability
- Proximity to work or study

### **Rental Properties**

#### **Scattered-site rentals (SSR)**

- Single-family homes vs Multi-family dwellings
- Student housing
- Garden apartments (2/3 Bedroom units)
- Walk-ups
- Multi-story, high-rise and luxury apartments.

## Professional Conduct

If you are becoming a Property Manager you are expected to know industry standards, which are set out in the following legislation:

- Estates Agents Act 1980
- Sale of Land Act 1962
- Residential Tenancies Act 1997 (\*\*Focus on this one for this unit)
- Retail Leases Act 2003
- Australian Consumer Law and Fair Trading Act 2012

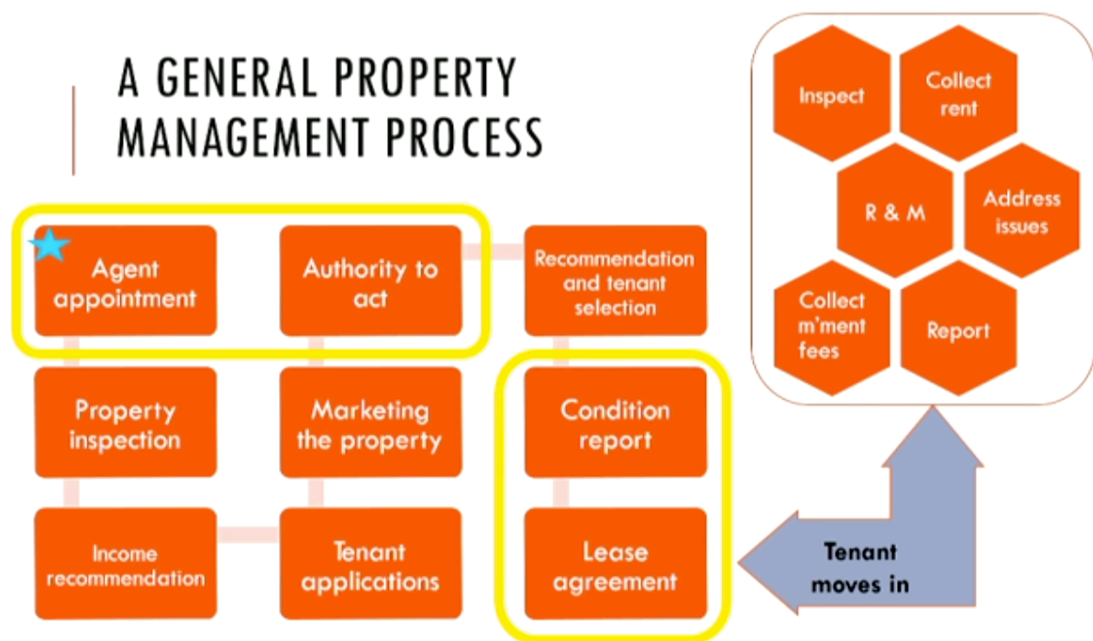
What must Property Professionals do?

- Know and adhere to all relevant legislation and laws
- Act fairly and honestly
- Follow their clients lawful instructions (don't do things that you know are illegal, don't breach legislation)
- Act in their clients best interests

What must NOT Property Professionals do?

- Use or disclose confidential information
- Create a potential conflict of interest with one of their clients by acting for another person
- Influence someone to breach a contract
- Engage in conduct that is unprofessional or detrimental to the estate agency industry

Property Management Process:



## **Rental Income**

### What influences Rental Income?

- Supply and Demand; Technical and Economic oversupply

Technical: More units/houses/apartments available than potential tenants

Economic: Potential tenants cannot afford to pay the price of available space

- Marketing availability of space
- Neighbourhood; location, street
- Property type; detached, demi-detached, high rise
- Property condition; internal, external, architecture

## **Leases**

### What is a Lease?

A lease is a legal contract between a landlord and a tenant that defines:

- The amount of rent
- How the rent is to be paid
- The length and type of tenancy
- The amount of bond required
- Other conditions and rules

### Three common types of Leases

1. Fixed term; signed for a set period of time
2. Periodic Lease; period determined by the term of the rent payments
3. Tenancy at will; no fixed time period

## **Bond**

### What is a Bond?

A bond is paid by a tenant and acts as a security for the landlord against the tenant meeting the terms of the lease. In Vic all rental bonds must be lodged with the RBTA (Residential Tenancies Bond Authority) – the bond amount is usually the equivalent of one month's rent.

## **Summary – Requirements for New Tenants**

Victoria's Residential Tenancies Act (RTA) state that at the start of every tenancy the agent/landlord must provide the tenant with:

- A copy of the CAV Guide "Rent a home: A Guide for Tenants"
- A copy of the lease agreement
- Two copies of the condition report
- A bond lodgement form
- The landlords or agents full name and contact information



## Victorias Resident Tenancies Act

Part 1 – Preliminary	Part 5 – Compensation & Compliance	Part 9 – Abandoned Goods
<b>Part 2 – Residential</b>	<b>Part 6 – Termination</b>	<b>Part 10 – Bonds &amp; the Residential Tenancies Bond Authority</b>
Part 3 – Rooming Houses	Part 7 – Regaining Possession	Part 11 – Functions of the Tribunal
Part 4 – Caravan Parks	Part 8 – Violence on Certain Premises (applies to rooming houses and caravan parks)	<b>Part 12, 13, 14 &amp; 15 – Administrative sections</b>

- Focusing more on Part 2: Residential also Part 5, 6 and 9.

### **Repairs** (Division 6: Repairs and Maintenance)

- The landlord is responsible for ensuring that the premises are maintained in good order
- All repairs are the landlords responsibilities
- If the tenant caused the damage they can be asked to arrange and pay for repairs
- Tenants still have to pay rent while they are waiting for repairs to be done

### Urgent Repairs

- Burst water service
- Blocked and Broken toilet system
- Serious roof leak
- Gas leaks

### **Notices**

#### Common Landlord Notices

<b>Purpose</b>	<b>Criteria</b>
Non payment of rent	Cannot issue until 14 days overdue then 14 days to pay
Failure to pay bond	14 days to rectify (normal practise to pay at outset)
Failure to comply with tribunal order	14 days to comply
Successive breaches	14 days to comply (to be re-issued for each breach)
Use of premises for illegal purpose	14 days to rectify
Demolition / repairs	60 days notice (effective after lease terminates)
To be occupied by Landlord's family	60 days notice (effective on or shortly after lease termination)
End of fixed term tenancy	60 days notice (effective on lease termination) 90 days notice (if lease term greater than 6 months)
Premises to be sold	60 days notice (effective on or after lease termination and premises can not be relet for six months)
No specified reason	120 days notice

## Common Tenant Notices

Section	Purpose
S235	Notice of intention to vacate
S238	Premises destroyed or unfit for habitation
S239	Failure of Landlord to comply with tribunal order
S240	Successive breaches by Landlord
S241	Order of tribunal that premises are abandoned
S242	Abandoned premises and rent in advance

### Resolving Disputes

Available options include:

- Mutual Agreement
- Conciliation
- Tenant advocacy services
- VCAT

### VCAT

The Residential Tenancies Division handles disputes between:

- Tenants and landlords
- Rooming house owners and rooming house residents
- Director of Housing and public housing tenants
- Caravan park owners and residents

## Summary - Key Terminology

### Part 1:

**Lease** – a written contract between a landlord and a tenant that transfers the right to exclusive possession and use of the landlord's property to the tenant for a specified time

**Lessor** – Landlord/owner

**Lessee** – Tenant

**Security deposit/Bond** – A payment by a tenant, held by the landlord (or their agent) during the lease term and kept on default or damage of the premises by the tenant

**Condition Report** – Prepared prior to the tenants occupancy noting the general conditions of the property.