Chapter 54
Real Property Management

INTRODUCTION

Property management is one of the fastest growing areas of specialization in real estate. As more institutional investors diversify their portfolios, they hire managers to manage their properties at various locations. Today’s building systems have become more complex, the accounting and reporting functions have become more prevalent, and financial resources are stretched even further, and yet the property manager must cope with growing amounts of information necessary to achieve the owner's goals and objectives. This chapter looks at the complexity of professional property management by examining the different property types in the market and their specialized needs.

TYPES OF RESIDENTIAL PROPERTY

(a) SINGLE FAMILY HOMES, DUPLEXES, TRIPLEXES, AND FOURPLEXES - These one to four family dwellings have been popular with small investors who are building portfolios of income producing properties. Since the return is often marginal and the properties are geographically spread out, the owners often manage these properties themselves. Sometimes an owner will hire a professional manager if the owner's portfolio is large enough or if the owner's available time or temperament does not allow self management, but this situation is not common.

(b) VACATION HOMES - A manager can develop a substantial business by renting vacation property and taking care of it during the off-season. Many owners of these properties use it for part of the season and wish to rent it for the remainder of the season. Usually the property is not close to their home, so a manager must screen potential renters, collect the rent and any security deposit, make sure that the property is clean after each renter leaves, close the property at the end of the season, repair any damage, and take care of any routine maintenance chores such as mowing the lawn. Since the manager is typically dealing with short term tenants, management of vacation properties resembles that of hotels and motels.

(c) APARTMENTS (MULTIFAMILY) - In common usage, an apartment is normally a multifamily residential structure having five or more units. Apartments are usually classified by their architectural type. Garden apartments, the predominant form in Georgia, are usually two to four story buildings located in suburban areas. The apartments range from studio apartment (no separate bedroom, but one common living area), to one, two, and three bedroom units. Midrise and highrise apartments with elevators are typically found in cities where land is too expensive to build garden apartments. These types of apartments attract professionals who want to live close to their job, unmarried people, and older residents.
who like the security and quietness of an elevatored building. Managing condominium properties that have been converted from apartments but have not necessarily all sold would be similar to multifamily management. However, the diversity and potential number of "owners" this manager would encounter make this specific management a challenge.

HOMEOWNER ASSOCIATION MANAGEMENT – Many property managers offer services to HOAs to supervise the collection of HOA fees from member homeowners and coordinate the services required such as common area maintenance, maintenance of the community pool, and coordinating the use of any common areas available to residents such as the use of the community club house. The property manager will also be responsible for inspecting properties within the community and enforcing community standards regarding lawn maintenance, exterior colors, and exterior additions in accordance with the HOA’s covenants and by-laws documents.

**TYPES OF OFFICE BUILDINGS**

(a) SINGLE TENANT BUILDINGS - Single tenant buildings tend to be owned by the occupants, often small businesses such as accounting firms or law firms. These buildings are most often managed by the owners and, due to the scale and geographic diversity, do not represent a significant management opportunity for the professional manager. When a large firm, such as a major corporation, owns and occupies the building, the corporation will either have an in-house management staff or will contract with an outside manager.

(b) MULTISTORY OFFICE BUILDINGS - This is the most common type of office space, and it provides many opportunities for professional property managers. Since the space within the building tends to be generic and capable of housing a number of different types of tenants, multistory office buildings are popular with institutional investors such as pension funds and life insurance companies.

(c) OFFICE PARKS - Office parks typically consist of low rise buildings in a park-like setting with a variety of tenants. A park can be owned by one large owner or by several smaller owners, each with an interest in usually two to four buildings.

**TYPES OF INDUSTRIAL PROPERTIES**

Industrial properties are generally classified by their use rather than their architectural style. The standard categories for industrial activity are as follows:

(a) DISTRIBUTION / WAREHOUSING - Use activities include collecting, inventorying, packaging, and dispersing products without value added processing.

(b) MANUFACTURING - The property user assembles components into intermediate or end-user products.
<table>
<thead>
<tr>
<th></th>
<th>RESEARCH AND DEVELOPMENT (R&amp;D) - Activities are primarily experimental, dealing in product development or seeking to improve production efficiency.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(d)</td>
<td>INDUSTRIAL SERVICE - The activities are service oriented, such as printing, repairing, providing security, and providing supplies to other firms that are located in industrial-zoned complexes.</td>
</tr>
</tbody>
</table>

**EVOLUTION OF INDUSTRIAL PROPERTIES**

Older industrial properties tended to be in inner city areas, with factories, warehouses, and supply businesses mixed with commercial activities, service businesses, and residential areas. These buildings are characteristically multistory brick or masonry construction, and many are owner occupied. Those that are not tend to be triple net leased with few management requirements. Industrial leases have the longest average length of improved properties, with a range starting at about five years and a maximum of 99 years. The reason for the 99-year lease term is that in many states, a lease of 100 years or more is considered to be a fee simple ownership.

In the early twentieth century, urban sprawl began and industrial areas clashed with residential areas. Cities began to use zoning regulations as a tool to keep industrial and residential areas separate. Many of these zoning ordinances were attacked as being unconstitutional, but the U.S. Supreme Court ruled in 1927 that zoning was constitutional. With industrial activities confined to governmentally defined zones, the next step in the evolution of industrial property was the industrial park. The industrial park is a planned development containing industrial buildings built according to a common scheme within the park. The planned development concept has also been applied to office parks.

As industrial parks became more popular, the concept became more sophisticated. The next stage in the evolution was the emergence of the planned development, an industrial park with restrictions on the design, occupancy, and use of the buildings. The planned industrial development shares a theme with the residential subdivision. By limiting the use, design, and occupancy of the buildings, the developer achieves some degree of similarity in the tenants or owners, which helps to maintain property values. The current trend in industrial properties is the planned employment center, designed to serve the employment needs of urban areas. It is a multiuse district that provides a variety of industrial and commercial needs and is not strictly limited to traditional industrial activities.

**SPECIAL NEEDS OF INDUSTRIAL PROPERTIES**

|   | ENVIRONMENTAL - Industrial users frequently use toxic chemicals in manufacturing products. Even warehouse facilities use powerful cleaning solvents and must dispose of liquids such as engine oil and lubricating materials. Therefore, property managers must be aware of federal and state regulations such as the Toxic Substances Control Act, CERCLA (the Comprehensive Environmental Response, Compensation, and Liability Act), and SARA (the Superfund Amendments and Reauthorization Act). These and other environmental laws are complex and strict in their applications. Owners and managers of |
industrial properties may have a higher level of risk due to the nature of some tenants.

(b) MAINTENANCE - Most industrial properties are triple net leased, which puts most of the maintenance responsibilities on the tenant. While this arrangement at first seems to relieve the manager of responsibility, the manager must still provide for the right of inspection in the lease and must inspect the property periodically to monitor for deferred maintenance and potential health and safety issues.

(c) EXTERIOR STORAGE - Exterior storage is a frequent problem with industrial properties. Often tenants will store cleaning solvents, gasoline, other products with noxious fumes, storage pallets, engine parts, and empty steel drums in outside areas. Such storage is dangerous and unsightly and can violate local, state, and federal regulations as well as the requirements of the lender holding the mortgage on the property. The lease should specify the standards for outside storage and the manager must monitor the storage to make sure it complies with the lease provisions.

TYPES OF RETAIL PROPERTY

Retail property is usually classified on the basis of size, which is a reflection of the trade area served by the facility. The classifications of shopping facilities are:

(a) SUPER-REGIONAL CENTER - This is the largest type of center, ranging from over 800,000 square feet to over 1.5 million square feet. The center will have from three to six large retail department stores, known as anchor tenants, which provide the major shopping draw for the center.

(b) REGIONAL CENTER - A regional center serves a trade area of 10 to 50 miles, is supported by 50,000 to 150,000 families in the trade area, and has between 300,000 and 800,000 square feet of space. This type of center also has from three to six anchor tenants.

(c) COMMUNITY CENTER - A community center is anchored by a junior department store and serves a five-mile trade area of approximately 5,000 families. It usually has one or two department, discount or variety stores and other convenience stores.

(d) NEIGHBORHOOD CENTER - Neighborhood centers are designed to provide convenience shopping for customers within a 1.5 mile trade area. The center is anchored by a supermarket and typically also includes a drugstore and other convenience shopping stores that have small trade areas, such as dry cleaners.

(e) CONVENIENCE CENTER - Convenience centers are also known as strip centers. They are typically in suburban areas and contain approximately 10,000 to 30,000 square feet. Convenience centers usually do not have an anchor tenant and provide convenience facilities such as ice cream stores and video rental stores.

SPECIAL NEEDS OF RETAIL PROPERTIES
Retail properties have special needs because they must be well maintained to attract customers and the tenant leases have special payment terms.

<table>
<thead>
<tr>
<th></th>
<th>MAINTENANCE - The retail lease typically requires the tenant to pay for a percentage of the common area maintenance (CAM). Correctly collecting and applying the maintenance fees is important in keeping the center a viable shopping environment for customers. Trash removal, security, and landscape maintenance all play an important part in the image of a center.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>TENANT FINISH - Most retail space is leased unfinished and the tenant is responsible for outfitting the interior of the space to suit its needs. In slow markets, tenants often bargain for the owner to pay all or a part of the tenant finish. This can be an expensive proposition; and if the improvements will benefit this tenant only and be of no use to a new tenant, the owner must recapture the cost of the improvements in the lease payments.</td>
</tr>
<tr>
<td>(b)</td>
<td>RENT - Retail rental arrangements often include both a fixed and a variable portion in the rent. The variable portion is percentage rent and is based on the tenant's sales (see the chapters on leasing in this book). The manager must monitor the tenant and receive periodic sales reports in order to collect the maximum rent due to the owner.</td>
</tr>
<tr>
<td>(c)</td>
<td>SECURITY - Security is a high priority item for retail property managers. Suburban shopping areas are not as safe as they once were, and the image of a center can suffer greatly if the manager does not provide adequate lighting, security personnel, and other safety features for the center.</td>
</tr>
</tbody>
</table>