



ARE 528
Real Estate Management
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Chapter 5
Owner Relation and
Record Keeping
Part-II

Principles of
Real Estate Management

Twelfth Edition

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OUTLINE

- ❖ INTRODUCTION
- ❖ PRINCIPAL FORMS OF INCOME-PROPERTY OWNERSHIP
 - CORPORATION
 - LIMITED PARTNERSHIP
 - REAL INVESTMENT TRUST
 - INDIVIDUAL INVESTOR
- ❖ MANAGEMENT AGREEMENT
- ❖ MAINTAINING CLIENT GOODWILL
 - STATEMENT OF OPERATIONS
 - SUMMARY OF OPERATIONS
 - RECORDS OF INCOME
 - RECORDS OF DISBURSEMENTS
 - NARRATIVE REPORT OF COMMUNICATIONS
 - PERSONAL COMMUNICATIONS
- ❖ SUMMARY



MAINTAINING CLIENT GOODWILL - 1/24

- ❖ Even though it is a specific property manager who negotiates a management agreement with an owner, the manager is not the one who will be on the site on a daily basis.
- ❖ Rather, employees of the property will be handling tenant requests, performing maintenance tasks, and assuming other ongoing operation responsibilities.
- ❖ In forming a sound relationship with clients, this situation must be explained immediately to the owner.
- ❖ Only by such frank disclosure can a manager satisfy the client
- ❖ If the manager does not inform the owner that others will provide necessary services, the business arrangement may be jeopardized.



MAINTAINING CLIENT GOODWILL - 2/24

- ❖ **Sound owner-manager relations also depend on the client understanding that the manager cannot control the economy.**
- ❖ **Management can only produce the highest possible net return under current economic conditions.**
- ❖ **In favorable time, poor management can return excellent earning, in unfavorable times, it is often impossible for the best management to produce more than bare returns.**
- ❖ **One of the basic reasons for analyzing current market conditions is to demonstrate to owners that properties are operated efficiently.**
- ❖ **There can be no sound relationship with a client if a manager's employment is based on fixed earning or yield.**



MAINTAINING CLIENT GOODWILL - 3/24

- ❖ **Attitudes of property owners are formed in two ways.**
 1. **Owner's personal experience**
 2. **Based on the operating record of the manager and how it is presented to the owner**
- ❖ **In preparing the budget as part of the management plan, the manager's focus is on maximizing the owner's objectives while being realistic in estimating income and expenses.**
- ❖ **The manager's ability is judged against this budget.**
- ❖ **If good management has prevailed, the property manager will be able to show the owner how closely actual income and expenses came to the projections.**



MAINTAINING CLIENT GOODWILL - 4/24

- ❖ A property manager's operating record also is founded on the owner's personal contact with manager, or with members of the management team, and by communications sent to the owner from the management office.
- ❖ The owner's attitude toward management also is influenced by secondary experience, or from contacts, with and the options of others regarding character, integrity, and the ability of manager in short reputations.
- ❖ Most of the responsibility for forming a positive owner-manager relationship lies with the manager in a carefully worded operating experience record and in productive personal contacts.



MAINTAINING CLIENT GOODWILL - 5/24

Statement of the Operations

- ❖ **There is a fine point of distinction between too much and too little written contact with clients.**
- ❖ **However, there is one document that cannot be omitted; the most important written contact between the manager and the owner is the periodic (usually monthly) *statement of operations*.**
- ❖ **This report is the primary record produced by a management firm's accounting department.**
- ❖ **All others are secondary; either necessary to the operation of the property, or used to interpret the data in the monthly report.**



MAINTAINING CLIENT GOODWILL - 6/24

Statement of the Operations:

Summary of operation

- ❖ **One of the key statement in the report to the owner is the *summary of operation*, a brief description of income and expenses relative to the property for a specific period, usually one month.**
- ❖ **It is an at-glance reflection of the flow of cash from the property to the owner. (figure 5-1)**
- ❖ **For most properties, especially large ones, the summary should be supplemented by schedules that provide in-depth information about the operation.**
- ❖ **The summary enables both the owner and manager to evaluate the monthly results.**
- ❖ **If detailed information is needed, it can be found in the accompanying schedules.**



Figure 5-1 Summary of Operation

Property: Owner;		Period: Prepared By:	
Scheduled Rents (Including Employee Unit)			Remarks
Lees			
Vacancies			
Rent Loss			
Effective Rent			
Miscellaneous Income			
Total Income			
Less Expenses			
Administrative			
Management Cost			
Other Administrative Cost			
Operating			
Payroll			
Supplies			
Heating			
Electricity			
Water and Sewer			
Gas			



MAINTAINING CLIENT GOODWILL - 7/24

Statement of the Operations:

Records of Income

- ❖ Since rent is the major source of income, the chief report of controlling is the *rent roll*, which is a record of tenant's names and their units or suite numbers.
- ❖ To account for all rentable space (and as a record of all rental income payable and paid by tenants of the building), vacant spaces as well as occupied space is listed on the transcript. (Figure 5-2)
- ❖ The rent roll is a balance sheet for the account of each rental area; the footings at the bottom, then, must balance.
- ❖ The record proves that the sum of rental income earned, plus the beginning balances owing, less collections made, produce a result equal to the unpaid balance at the end of the month.



Figure 5-2 Rent Roll

Property: Owner;					Period: Prepared By:			
Unit Number	Occupant	Previous Balance	Current Rent	Date Received	Other Collection		Total Received	Balance Due
					Amount	Description		

REAL ESTATE MANAGEMENT



MAINTAINING CLIENT GOODWILL - 8/24

Statement of the Operations:

Records of Income

- ❖ **The total of rental income earned, plus the rental value of vacant space, should equal the rental value of total space in the building.**
- ❖ **Subsidiary income records from which the rent is prepared may vary greatly, depending on the type of property and office procedures.**
- ❖ **In all cases, the manager must maintain some type of *rental ledger* for each tenant or rental area. (Figure 5-3)**
- ❖ **The typical ledger is a card in a record tray or a loose-leaf sheet in a post binder. It provides space to note tenant's name, phone number, unit, regular rent and other recurring charges, security deposit information, move-in date, lease terms, and other pertinent facts about the leasing arrangement**



MAINTAINING CLIENT GOODWILL - 9/24

Statement of the Operations:

Records of Income

- ❖ **Some ledger cards must be updated monthly, but office with large volumes of rent collection usually have machine bookkeeping or electronic data of rent collection usually have processing system.**
- ❖ **The property manager should adopt standard procedures for keeping rent records.**
- ❖ **Usually, as an invoice to the tenant is prepared, one copy is kept as a ledger, or receivable record, until paid.**
- ❖ **Other copies are prepared as needed, i.e., for branch offices.**
- ❖ **Another record essential to the handling and control of income is the *rent receipt*.**



MAINTAINING CLIENT GOODWILL - 10/24

Statement of the Operations:

Records of Income

- ❖ **A rent receipt should be issued for every item of cash received and a carbon of the receipt be retained.**
- ❖ **The copies may be as a ledger posting source and for determining the daily total receipt from bank deposits.**
- ❖ **Rental receipt copies also may be audited to confirm that the collector recorded the correct rental and noted the period covered by the payment.**
- ❖ **Should the property acquire income from sources other than tenants rentals, such as parking or laundry facilities, this income should be reported on a subsidiary record to the owner as well.**
- ❖ **(Figure 5-4) Shows similar to *Statement of Miscellaneous receipts*.**



MAINTAINING CLIENT GOODWILL - 11/24

Statement of the Operations:

Records of Disbursements

- ❖ Along with the summary of operations is a *statement of disbursements*, which lists all expenses incurred by a property during a specific operating period (Figure 5-5).
- ❖ The source of information regarding expenses varies from one management company to another.
- ❖ Many small management offices order services, supplies and repairs orally and keep no written records.
- ❖ This is not a sound practice, since it places reliance on the memory of the individual.
- ❖ Regardless of size of the operation, written orders should be issued for every purchase, so what invoices are not approved for payment unless first compared with the order and misunderstanding do not develop.



MAINTAINING CLIENT GOODWILL - 12/24

Statement of the Operations:

Records of Disbursements

- ❖ In large properties that have receiving rooms, an extra copy of the purchase order typically is sent to receiving clerk so that shipment is expected and the quantity and condition of supplies may be checked.
- ❖ Different types of checks may be used for buying bills. Most managers use a plain check and note on the reverse the date of invoices covered.
- ❖ Other managers send the bill along with check and ask that it be receipted.
- ❖ Some use voucher checks that describe the items being paid in the voucher portion of the check.



MAINTAINING CLIENT GOODWILL - 13/24

Statement of the Operations:

Records of Disbursements

- ❖ If the owner lacks confidence on the manager to the extent that all bills must be receipted by the vendor, then the manager should not have been retained in the first place.
- ❖ Reporting bills paid that are (permitting the manager temporary use of funds for personal gain) does occur.
- ❖ However the code of ethics of the Institute of Real Estate Management expressly prohibits commingling of an owner's funds with those of manager, and if this standard is adopted, there is no have bills receipted.



MAINTAINING CLIENT GOODWILL - 14/24

Statement of the Operations:

Records of Disbursements

- ❖ Because of the many types of properties that may be managed, there is no one accepted format for classifying disbursements and reporting them to the owner.
- ❖ Still, there is a strong need for simple, straightforward methods of classifying and presenting disbursement data.
- ❖ The Institute of Real Estate Management has adopted charts of account for the purpose of analyzing income and expenses relating to suburban office buildings and apartments.
- ❖ These charts of account are presented on Figure 5-6 and 5-7.



Figure 5-6 Chart of Account: Suburban Office Buildings

Income

- Offices
- Retail
- Parking
- Escalation
- Retail Percentage Income
- Miscellaneous n Income
- Vacancy and Delinquent Rents (minus)

Expenses

Utilities

- Electricity
- Water
- Sewer
- Heating Fuel
 - Gas
 - Fuel Oil
 - Electricity
 - Steam
 - Other
- Combination Electric

Janitorial

- Payroll/Contract
- Cleaning Supplies
- Miscellaneous

Maintenance and Repair

- Payroll
- Supplies
- HVAC Repairs
- Plumbing Repair
- Elevator Repair and Maintenance
- Exterior Repair



Figure 5-6 Chart of Accounts: Suburban Office Buildings

- Roof Repairs
- Parking Lot Repairs
- Decorating-----Tenant
- Decorating-----Public
- Miscellaneous Repair
- Administrative**
- Payroll----Administrative
- Advertising
- Management Fee
- Other Administrative
- Other Payroll costs**
- Payroll Taxes
- Employee Benefits
- Insurance**
- Services**
- Landscape
- Trash Removal
- Security----Payroll
- Security---Contract
- Window Washing
- Snow Removal
- Miscellaneous
- Real Estate Taxes**
- Other Taxes/Fee/Permits**



Figure 5-7 Chart of Account: APARTMENTS

Income

- Rent – Apartments
- Rent – Garage Parking
- Rent - Store/Offices
- Gross Possible Rents
- Vacancies/Rent Loss (minus)
- Total Rents Collected
- Other Income

Expenses

Administrative

- Management Costs
- Other Administrative

Operating

- Supplies
- Heating fuel
- Electricity
- Water Sewer
- Gas

Building Services

Other Operating

Maintenance

- Security
- Grounds Maintenance
- Maintenance and Repairs
- Painting/Decorating

Taxes/Insurance

- Real Estate Taxes
- Other taxes/Fees/Permits
- Insurance

Service

- Recreational/Amenities

Other Payroll



MAINTAINING CLIENT GOODWILL - 15/24

Statement of the Operations:

Narrative Report of Operations

- ❖ **The owner of a building should be familiar with its operating potential and approximate monthly income, subject to seasonal variation.**
- ❖ **If the owner's statement indicates a net operating return equal to expectation and there are no unusual items in either the expense or income categories, then it is not essential include a detailed letter with the statement.**
- ❖ **However, experience proves that a client should not receive a report without evidence of personal interest, which can be expressed by an accompanying letter.**
- ❖ **Even if the letter states no more than operations were normal for the month, it should be sent with the statement.**



MAINTAINING CLIENT GOODWILL - 16/24

Statement of the Operations:

Narrative Report of Operations

- ❖ In every building there are months in which income is either lower or expenses higher than normal, or vice versa,
- ❖ The owner's primary interest in the monthly report is to learn the level of cash flow.
- ❖ Any deviation from normal income is of special concern.
- ❖ Because less-than-normal income may cause the owner to doubt management's competences, the manager should explain the loss.
- ❖ A reasonable client will understand why income is less than expected if the explanation is clear and convincing.
- ❖ If, however, the letter is inadequate and does not cover the facts, the owner may be disappointed and lose confidence in the management firm.



MAINTAINING CLIENT GOODWILL - 17/24

Statement of the Operations:

Narrative Report of Operations

- ❖ **Each monthly statement should be reviewed carefully by management and an explanatory letter prepared to support any factors that were responsible in decline for in net revenue.**
- ❖ **If at all possible, the manager should inform the owner when an unusual expense or a decline in income is anticipated.**
- ❖ **Advising the owner of these circumstances before the monthly statement is sent eliminates much of explaining that otherwise would be necessary.**



MAINTAINING CLIENT GOODWILL - 18/24

Personal Communication:

- ❖ In addition to monthly operating report, there are many occasions when manager believes it is necessary to contact their clients.
- ❖ Most manager agree that letters should be sent only when the owner is away from the area.
- ❖ Personal contact either by face to face or by telephone , is much more effective than a written communication.
- ❖ Only when in personal contact with the client can the manager obtain an immediate reaction to a question or a proposal and be assured a satisfactory outcome.
- ❖ If possible, there should be an interview when monthly statements deviate significantly from the normal and explanation written communication is difficult.



MAINTAINING CLIENT GOODWILL - 19/24

Personal Communication:

- ❖ **There is no substitute for personal contact, letters should be written only when an interview is impractical.**
- ❖ **Whenever decisions made in a telephone conversation or personal interview require verification, the manager should send the client memorandum.**
- ❖ **When it is impossible to contact a client by interview or telephone call, a letter should be prepared carefully.**
- ❖ **If the letter is written by someone other than the person directly responsible for the client relationship, at least it should be examined by the executive who is most familiar with the client.**



MAINTAINING CLIENT GOODWILL - 20/24

Personal Communication:

- ❖ Property managers must be aware of the special problem involved in retaining business during unfavorable periods.
- ❖ When real estate condition reflect lower rental, higher vacancies, and increased operating expenses, the property manager cannot present his clients with an operating record that they will consider satisfactory.
- ❖ To most owners or stockholders the greatest earning produced become the owner's regular expectation.



MAINTAINING CLIENT GOODWILL - 21/24

Personal Communication:

- ❖ **Property owners (whether individual, corporation, partnership, or the government) will be dissatisfied, of course, with reports of steadily declining net income, and managers must assure owners that every effort is being made to obtain maximum earning.**
- ❖ **During adverse, the property manager must inform owners of general economic factors, and also must emphasize that results are better than average for conditions, even though income is decline.**



MAINTAINING CLIENT GOODWILL - 22/24

Personal Communication:

- ❖ There are certain basic principles which the manager should observe with clients. The number of contacts is best decided by the situation.
- ❖ Some property owner retain managers to assume the operating details and reduce their own contacts with building, or to be free from responsibilities of tenant contact and personal administration. But, they still want managers kept them informed.
- ❖ To the property manager, whose clients are few enough to permit frequent personal contact, the frequency of contact is a matter of individual needs: the corporate owner who wishes to be completely free from responsibilities should not be bothered, while the individual owner who is deeply interested in the property's operation should be contacted.



MAINTAINING CLIENT GOODWILL - 23/24

Personal Communication:

- ❖ In larger organization where the chief executive cannot handle client contacts, one *account executive* should be responsible for client relation in each operation.
- ❖ When a new property is acquired for management, it should be assigned to an account executive.
- ❖ In the initial interviews between the account executive and the client, the person responsible for acquiring the operation should be present to acquire the two parties.
- ❖ The account executive, one familiar with the client and the account, can assume complete responsibility for the operative and financial services to be provided.



MAINTAINING CLIENT GOODWILL - 24/24

Personal Communication:

- ❖ Some times the client's personal relation with the management firm extend beyond the individual manager, or in a larger organization, the account executive.
- ❖ Clients may visit the manager's office just to see how things are going or perform some specific errand in connection with their property.
- ❖ As clients, they believe they are important and judge the management firm by the manner in which they are received on these occasions.
- ❖ All employees in the management firm, therefore, should meet as many clients as possible, so that when they do visit the office, that are recognized and treated courteously.



SUMMARY - 1/4

- ❖ Real estate management refers to having someone other than the owners of property supervise its operations according to the owner's objectives.
- ❖ The property manager is the agent and the owner is the principal.
- ❖ To be an effective agent, the manager first determines the owner's reasons for investing in the property and then creates a management plan so that these objectives are met.
- ❖ To ensure a continuing agent/principal relationship, the manager also sets forth a client relation policy and establishes procedures to see that this policy is implemented.



SUMMARY - 2/4

- ❖ **Real estate ownership may take one of several forms.**
- ❖ **The principal ownership forms are:**
 1. **Corporation,**
 2. **Limited partnership,**
 3. **Real estate investment trust, and**
 4. **Individual investor**
- ❖ **Each is characterized by a unique set of traits pertaining to income tax consequences, liability, and management requirements.**
- ❖ **The relationship between the ownership and the property manager is documented in a written management agreement.**
- ❖ **This contract sets forth the terms and conditions of the business relationship, including the fees involved, duties, responsibilities of and limitations of parties.**



SUMMARY - 3/4

- ❖ **Maintaining a sound ongoing relationship with the client requires two kinds of actions:**
 1. **Formal, written communications,**
 2. **Informal, personal contact**
- ❖ **The property manager reports on a property through a statement of operation.**
- ❖ **The statement of operation is made up of several parts:**
 1. **The summary of operations, which briefly describes the income and expenses attributable to the property**
 2. **Records of income, which include a rent roll and statement of miscellaneous receipts**
 3. **A statement of disbursement, which is tied to the chart of account, and**
 4. **A narrative report of operations, which verbally explain what transpired at the property during the past period and why**



SUMMARY - 4/4

- ❖ **Complementing the formal statement of operations, which usually is prepared monthly an at least quarterly , is personal contact with the property owner.**
- ❖ **This communication comes from the property manager who is charged with the management account and is designed to display interest in the property being managed and sincere concern for the owner and the owner's investment.**



REAL ESTATE MANAGEMENT

Thank You