



REAL ESTATE MANAGEMENT

ARE 528
Real Estate Management

Chapter 6
Marketing and Leasing
Part-II

Principles of
Real Estate Management

Twelfth Edition

By: James C. Downs Jr., CPM

Prepared By:
Hassan Balfaqih

Instructor
Dr. Abdulmohsen AL-Hammad



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Renting Techniques

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- Renting is a process of interesting prospects in space once they have been given the opportunity to rent it. The desire to rent results from the property manager's maximizing the value of the space and then convincing prospects of this value.
- *Negotiating a lease* requires the manager to stress how a given space satisfies the prospective tenant's needs. The prospect should receive all the information that could produce a favorable decision in a courteous, considerate, and sympathetic manner.
- This is accomplished when the property manager personally guides the prospect through the space to be leased, noting its features. At this time, the manager also should cite any amenities and services provided.
 - **Examples:**
 - The manager of an office building should mention special security arrangements or utility reduction systems.
 - The property manager of an apartment complex would point out swimming pools and laundry facilities.
 - If it is an industrial property; the manager would mention the proximity of transportation facilities.

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Renting Techniques

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- Qualification of the prospective tenant (judging the prospect's acceptability) is an important, but sometimes neglected, aspect of renting.
- if the space meets the prospect's needs and the prospect meets the property's criteria. This can be accomplished by asking some unobtrusive questions and not only listening to the answers but also judging from what is not said.

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Lease Document

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- **Lease** is a contract given by one person (*the landlord or lesser*) to another (*the tenant or lessee*) for use or possession of real property, for a specified time, and in exchange for fixed payments. The contract is usually written and binding in the legal sense with respect to the commitments given by the signatories.

- Any agreement, even an oral one, is legal and enforceable within the bounds of the law. However, good management requires a written lease to establish a record of a contract made between an owner and a tenant.

- Both parties should demand a written lease for one reason: **protection**. A *landlord* desires a lease to assure occupancy and income for the period which it covers. At least theoretically, there should be no loss due to a sudden vacancy.

- The *tenant* desires a lease, too, because it provides security of possession for the length of its term. Without a lease, tenants theoretically can be evicted at the whim of the landlord. In certain and eviction, but, without such laws, the tenant has no guarantee of possession other than the lease.

- *Examples:* Egypt, Lebanon

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Lease Document

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- Since leases are designed primarily to eliminate misunderstanding between owner and tenant, the lease provisions must be understood by both. It is always a good policy for the manager to ask a new tenant if the lease has been read and to explain provisions not understood.

- The professional manager should not adopt lease form simply because it is popular but should use a form that is reasonable, standardized, and suitable for all tenants. The professional manager interested in establishing goodwill does not use a lease from which informed people will remove basic clauses and which uninformed people will sign as a matter of faith. A proper lease form is suitable to both the informed and uninformed and its contents upheld.

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• **Types of Lease**

• The type of lease used depends on the kind of property being managed. A prepared property manager should be informed about three basic types of leases.

• **First, the occupancy agreement**

– For "residential lease" used to soften any hostility that sometimes is felt by tenants for landlords. An occupancy agreement is often a Form of **gross lease**; that is, the tenant pays a fixed rental and the owner pays all the expenses associated with the operation of the property, including taxes, insurance, and other expenses. Responsibility for utility costs and extraordinary repairs may be negotiated between the parties.

• **Second, the net lease,**

– Under which the tenant not only pays the rent but also assumes responsibility for certain expenses connected with the leased premises. The landlord, then, receives a net figure as rent. Actually, there are **three types of net leases**

» **The single-net** lease, the tenant pays for maintenance and operating expenses associated with the space being leased.

» **The net-net lease**, the tenant pays all maintenance and operating expenses plus property taxes.



» **The net-net-net** (or triple-net) lease, the tenant pays all maintenance and operating expenses, property taxes, and insurance.

• The **net lease** and its variations most commonly are long-term leases designed for large office buildings and other commercial properties.

• **Third, the percentage lease**

– Which is used for retail properties. Under a percentage lease, the rental usually is based on a percentage of gross sales or net income made on the premises or a minimum fixed rent, whichever is greater. With this type of lease, the landlord shares in the financial benefits of the leased premises. Major retail tenants often negotiated a lease with a fixed charge per square foot.



- **Lease Provisions**
- Despite the differences in the three basic types of leases, all leases must have certain characteristics to be considered valid.
- Standard lease forms have been accepted throughout the country by local and, state real estate boards, building owner groups, trade associations, and property managers.
- Because of the complexities of the legal system, however, it is necessary to add conditions and agreements to cover possible areas of misunderstanding and dispute.
- Specifically, a lease must contain:
 - The complete and legal names of both lessor and lessee. Next, the lease must be signed by the tenant (or authorized agent of the tenant) and the property owner. If empowered to execute leases for the owner, the managing agent may sign the lease.
 - Description of the leased premises. For an occupancy agreement, the apartment number and address of the building are usually sufficient. For commercial space, legal descriptions and even floor plans may be added.
 - Term of the leases. The lease should cite the dates on which the lease is to begin and terminate as well as note the total period to be covered. Provision relating to renewal or cancellation also should be stated.



- Rental. A lease must indicate the type of consideration given by the tenant to the landlord in exchange for the right to occupy the leased premises. In any type of lease, the amount and date of rent payment must be stated.
- Use of premises. All leases stipulate that tenants will use the premises for a set purpose. Prohibition against illegal use, with termination penalties, usually is included under this condition.
- Rights and obligations of the parties. This section of the lease, which usually is quite lengthy and detailed, states who is to do what and eliminates the possibility of misunderstandings between landlord and tenant.
- Certain clauses that outline the rights and obligations of the parties to a lease require special attention. One of these is the fire clause.
- This clause either allows the landlord to terminate the lease after destruction to the premises within a certain length of time.
- Also among the specific provisions in every lease are those that provide the landlord with legal means for terminating the lease, recovering possession of the premises, and collecting rents and damages.



- Provisions pertaining to subletting the leased premises, renewing the lease, and performing ongoing and extraordinary repairs also are contained in most agreements.
- Many leases also contain clauses that permit rents to be raised under certain economic conditions during the lease term. With the value of the dollar fluctuating so rapidly and the cost of utilities, services, and supplies constantly increasing, a rent adjustment clause is universal in all leases for longer than one year.
- The owner should expect dollars received five years from the date of the lease to purchase the same as on the date the rent was negotiated. If this is to be achieved, all long-term leases must contain some type of rent adjustment provision. Escalation clauses are common in commercial and are becoming more common in residential leases as well.
- Any situation that is not covered by a specific provision in the lease form should be expressed in a special rider or exhibit, signed by both the lessor and the lessee and incorporated into the lease.



- **Security Deposits**
- At the time a tenant signs a lease, most property managers require that tenant—especially a residential tenant—to pay a security deposit. This deposit is supposed to guarantee that the tenant fulfills lease conditions. It protects the building owner from tenants who might damage the rental turns or otherwise fail in their obligations. If all conditions are met by the tenant, the landlord must return the security deposit. The security deposit, therefore, does not belong to the owner and usually is kept in an escrow account.
- Uniform Residential Landlord and Tenant Act (URLTA). The URLTA stipulates that the owner of residential rental property may not demand a security deposit of more than one month's rent. It also states that when a tenancy is terminated, the deposit must be returned to the tenant within 14 days. If a portion of the security deposit is kept to repair damages, an itemized notice of these maintenance costs should be prepared. A **closing statement** will standardize this procedure
- Some states also require the owner to pay interest to residents on their security deposits.
- The property manager should make sure that no security deposit is considered as a tenant's final month's rent. If it is, the deposit will be taxable income. Tax liability is avoided if the deposit is kept in an escrow account



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Security Deposit Closing Statement

Property _____ Unit _____
 Type of Unit _____ Occupant _____ Move-In Date _____
 Term of Rental Agreement _____ to _____ Move-Out Date _____
 1 Date "Notice to Vacate" Received _____
 2 Cleaning and Maintenance
 a Estimated cleaning time _____ hours
 b It was necessary to paint _____
 c It was necessary to shampoo carpet _____
 d It was necessary to clean drapes _____
 e Damage beyond ordinary wear and tear from check-out column _____
 Occupant _____ On-Site Manager _____
 Forwarding Address
 Name _____
 Address _____
 City _____ State _____ Zip _____
 For Office Use Only
 Total security deposit on record \$ _____
 Less:
 Deposit held for unpaid rent
 \$ _____ per day for _____ days \$ _____
 Cleaning (actual time)
 \$ _____ per hour for _____ hours _____
 Damage (above ordinary wear and tear) _____
 Improper notice _____
 Other (specify) _____
 Total security deposit held _____
 Total security deposit refund \$ _____
 Managing Agent _____



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Renewal Techniques

- Renewing an existing lease is more important than making a new one. Because:
 1. Renewal eliminates vacancy loss
 2. It is less expensive to satisfy an existing tenant than to improve space for a new tenant
 3. Building has greater stability
- Renewing a lease means that customers have been satisfied
- Under normal circumstances, when the tenant whose lease is expiring is under no pressure to move, renewal is a matter of negotiation. There are very few periods in the economy when leases expire in a stable market. Rents are either going up or going down, vacancy is either increasing or decreasing. Lease expiration, then, is a time for bargaining between the tenant and the building owner. These **bargaining points are**:
 1. Whether or not tenant will renew at all
 2. The amount of rent to be paid, usually an increase
 3. The length of the lease
 4. The extent of the repair and rehabilitation to be performed under the renewal terms



Renewal Techniques

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- the manager must realize that the good tenant is a valuable asset, that an existing tenant's requirements usually are less than those of a new tenant, and that renewing a lease is the best form of maintaining a high occupancy level and stable earnings.
- The renewal process also requires that administrative action be taken. **There are three basic steps.**
 1. A list of all tenants whose leases are expiring should be made regularly.
 2. Tenants on the list should be notified by mail that their leases are due to expire. For residential tenants, lease renewal notices usually are mailed 60 days before lease expiration. This should allow management sufficient time to find new tenants without losing rent
 3. The property manager should follow up on the notices. This should be done in person or by phone shortly after the notices are mailed, allowing tenants little time to look elsewhere or otherwise decide not to renew.
- Different administrative action may be called for if a property's leases contain **automatic renewal clauses** (as opposed to leases that expire unless the tenant gives notice to the contrary). With an automatic renewal clause, the old lease is automatically renewed unless either the tenant or the landlord notified the other party of a desire to terminate the agreement. If neither party gives such notice, the lease is automatically renewed under the same terms and conditions.

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Summary

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- **Merchandising techniques** vary among property types; however, marketing strategy always depends on the given building's size, location, and age.
- Appropriate **forms of advertising** are:
 - *Signs*, including billboards (to announce large new projects) and small institutional signs on buildings to note who is managing them)
 - *Newspaper advertising*, including both classified and display ADs
 - *Radio and television advertising*
 - *Direct-mail advertising*
- The best type of advertising is that which produces the most prospective tenants at the least cost and in the least time. This requires analysis of the cost of advertising plus the cost of vacancy.
- Judging advertising effectiveness is through maintaining a *traffic report*, which is used to record the number of prospects who visit n property and what brought them there.

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