



Chapter seven:

Tenant Administration



Presentation outline

Part I

- **Introduction**
- **Tenant Selection**
- **Tenant relation**
- **Credit and Collections**
- **Rental Collection Policy**

Part II

- **Delinquency Procedure**
- **Eviction Procedure**
- **Summary**



Introduction 1/1

- Tenants are the foundation of property management activity and, in fact, are ownership's greatest asset.
- To develop this potential, a series of tenant oriented property management programs should be adopted.
 1. A **tenant selection** policy is needed to ensure that leases are signed only with acceptable applicants.
 2. An ongoing **tenant relations** program is required to satisfy existing tenants and encourage them to renew their leases.
 3. A **rental collection program** is necessary to ensure prompt payment of rents by tenants.

Feb-05

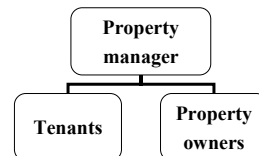
CH 7-Tenant Administration
By: Ali Alshammari

3



Tenant Selection 1/5

- A property manager is a mediator between:
 - tenants who want an acceptable place to live or work at the lowest possible price and
 - property owners who want to maximize their profits.
- The position is often difficult:
 - If the owner is not satisfied with the manager's operation, the latter may be discharged.
 - But if tenants do not perform according to the lease; even for reasons beyond management's control, the owner still will be dissatisfied. It is a game of double jeopardy.



Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

4



Tenant Selection 2/5



- The property manager works within a framework in which owner interests must be balanced with tenant interests.

owner interests ≈ tenant interests

- This requires a workable compromise between the seller (wishing to maximize profits) and the buyer (wishing to minimize cost).
- The property manager makes a living by maintaining a harmonious relationship with all parties. the property manager chooses:
 1. which properties to manage and consequently which owners to represent and;
 2. the tenants.
- Tenant selection should guarantee that the respective interests of the parties concerned are satisfied as fully as possible. The tenant expects maximum services for the rent, and the owner expects maximum profit on the investment.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

5



Tenant Selection 3/5



- To many uninformed owners and managers, the sole criterion of tenant desirability is rent-pay ability.
- Certainly, the credit rating of a tenant is extremely important in tenant selection.
- However, based on long term experience, more than 90 % of all tenants voluntarily pay their rent near the due date.
- But, 90 % of all managerial problems can be attributed to the other ten percent of a building's tenants. This emphasizes the need to apply criteria other than rent-paying ability when selecting tenants.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

6



Tenant Selection 4/5

Real Estate Management

- For residential tenants, criteria might include:
 - employment stability.
 - housekeeping ability.
- For commercial tenants, selection might be based on:
 - business reputation.
 - expansion plans.
 - service requirements
- While that only those tenants are selected who are responsible and suited to the particular property.
- Also, since long term tenants are more profitable than short term tenants, consideration should be given to the permanence factor.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

7



Tenant Selection 5/5

Real Estate Management

- Data are needed to make appropriate tenant selections, and each prospective tenant should be asked to complete a rental application.
- The kind of information requested will depend on the type of property involved.
- A residential rental application, would ask for:
 - the applicant's personal identity.
 - income.
 - all the persons who would occupy the unit.
 - and rental history.
- A commercial rental application would request:
 - the company's history.
 - banking and business references.
- Once this information is verified, the property manager can make careful tenant selections.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

8



Tenant Relations 1/8

Real Estate Management

- Selecting the proper tenants cannot take precedence over keeping them once they are chosen.
- The role of tenant relations is to listen to complaints against the owner and manager and correct any erroneous ideas about their intentions.
- In the real estate management business, dissatisfied tenants present serious problems.
- Nothing is more disturbing to the property manager than a landlord-tenant conflict over mutually exclusive interests.
- While there is a point of bargaining at the beginning of the landlord-tenant relationship, the conflict of interest between the two has been exaggerated.
- Most landlords want a fair return from property in line with current market conditions.
- tenants are mostly concerned with obtaining the best value for rent money and receiving all the services for which they bargained.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

9



Tenant Relations 2/8

Real Estate Management

- Much of the conflict between the two parties is avoidable when sound management practices are employed.
- The conscientious property manager educates both landlord and tenant to a realistic understanding of their mutual concerns and objectives. A mutual understanding can be achieved, if the manager works at it.
- It is important to understand the owner-manager-tenant relationship. Although the manager must see that the tenant is given fair treatment, the tenant's goodwill cannot be bought at the building owner's expense.
- On the other hand, the manager cannot refuse a tenant's reasonable request or withhold services for the sole purpose of increasing the building owner's advantage.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

10



Tenant Relations 3/8

Real Estate Management

- In most cases, a poor relationship between a building owner and a tenant stems from misunderstanding.
- The first step in correcting this problem must be taken during the original negotiations with the tenant.
- As often as possible, the results of these negotiations should be in written form (*the lease*) and the contents reviewed with the tenant at the time the discussions are completed.
- Besides a written agreement covering the fundamental points of the tenancy arrangement, the manager should explain rent collection policies, review carefully the operating regulations that control the property and discuss the methods of enforcing them, and be certain that the tenant understands building maintenance policies and how responsibilities are divided between building owner and tenant.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

11



Tenant Relations 4/8

Real Estate Management

- Ideally, a tenant brochure is given to each new tenant that outlines all of these policies and procedures.
- (Pages from a sample tenant handbook appear in figure 7.1.)

FIGURE 7.1
TENANT HANDBOOK

VACATING AND CLEANING PROCEDURES

Check-out prior to vacating the apartment and at the termination of the rental agreement.

Step 1:

- Notify the Real Estate Manager in writing (letter) to vacate apartment. Obtain form from the Manager.
- Inspect the apartment with the Manager. Review these procedures with the Manager at the time the notice is given and completed. Execute final part of the apartment in vacating.

Step 2:

- Check thoroughness.
- Check overall state, such as furniture.
- Check for cleanliness and condition.
- Check for any damage from the Manager.
- Check for any damage from the tenant.
- Check for any damage from the tenant.
- Check for any damage from the tenant.
- Check for any damage from the tenant.

AGREEMENTS

APPLICATION DEPOSIT

Deposit will be credited towards apartment rent if resident's credit check is acceptable to management.

RESIDENT TO MANAGEMENT

Resident is responsible for maintenance of the apartment and shall be held liable for any damage to the apartment.

MOVE-IN CHECK LIST

Check-in moving into apartment. The resident is responsible for the condition of the apartment and shall be held liable for any damage to the apartment.

RENTAL PAYMENTS

Rent is due on the 1st of each month and is delinquent on the 5th. Payment shall be by check and made out to the name of the apartment manager and shall be delivered to the resident.

INSURANCE

Resident is responsible for insurance on the personal property.

KEY CONTROL

Tenant is responsible for control of keys to apartment.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

12



Tenant Relations 5/8

Real Estate Management

- The manager who seeks a successful tenant relations program must thoroughly understand that procrastination is deadly.
- Most problems center on service requests. When such a request is made the tenant should be told immediately whether or not it will be granted.
- The most serious mistake made by many managers is accepting service requests they know will not be granted.
- If the manager explains the reason for the refusal, much of the sting will be removed, and the tenant's respect will be won.
- If the manager accepts a request and procrastinates, the tenant will lose confidence and never forget.
- This is the worst public relations and has no place in well organized property management.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

13



Tenant Relations 6/8

Real Estate Management

- While everyone who deals with the public knows that some tenants demand unreasonable service, most tenant requests are warranted, and the property manager should not automatically classify tenant requests as complaints.
- Management should consider requests as a measure of the maintenance program and/or the condition of the property.
- Actually, the tenant who calls about a leaking faucet is doing the property manager and owner a favor. The problem can be corrected rather than be permitted to worsen.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

14



Tenant Relations 7/8

- A sound tenant relations program requires more than a sympathetic attitude on the part of the manager.
- Since tenants are frequently in contact with on-site managers, leasing agents, maintenance people, building supervisors, janitors, telephone operators, or clerks of the maintenance office, these people must be acquainted with the manager's tenant relations policies as well.
- While property managers cannot claim "the customer is always right," the basis for training on-site personnel should be that the tenant is always entitled to considerate treatment.
- Efficient management realizes that good tenants are a tangible asset.
- Good tenants remain in residence and eliminate expensive turnover.
- Good tenants protect the manager's property and minimize the cost of maintenance.
- Good tenants advertise the reputation of the building and the manager, which reduces vacancy losses and promotional expenses.



Tenant Relations 8/8

- Keeping in mind the values of a solid, well satisfied tenancy, managers of large buildings try to increase tenant goodwill by making life in the project as pleasant as possible.
- In an apartment complex, arrangements can be made for children to have supervised play and for preschool care; recreational events are staged and tenant organization groups are recognized and accommodated.
- All of these activities promote sound tenant relations and solidify the earning power of the property.
- The property manager must realize, however, that becoming closely associated with any tenant on a social basis would be dangerous.
- These associations lead only to embarrassing situations and convince other tenants that the manager is playing favorite a belief that will increase tenant demands at the time of lease renewal and weaken management's negotiating position.



Credit and Collections 1/4

Real Estate Management

- In a typical building operation, a property manager's compensation is a percentage of the gross rents actually collected; this percentage is negotiated between the property manager and the owner.
- Consequently, there is a strong incentive to collect rents because the manager's income depends on these collections.
- Even for institutional and public housing properties, rent collection is an important part of the manager's activities.
- Operating costs, taxes, and general overhead expenses mount steadily, each day a building stands.
- These expenses are best paid from cash income, since they will never be paid by promises.
- The chief source of income is tenant rentals, and it is, therefore, essential that tenants' credit be screened carefully and current and future rent collected promptly.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

17



Credit and Collections 2/4

Real Estate Management

- The nearly universal practice of collecting rents once a month (generally on the first day) requires the property manager to be completely informed about all aspects of tenant credit and the associated duties of collection.
- Careful screening of applicants for rental space contributes to the eventual success of the collection program.
- Nevertheless, it is vital for management to establish firm and definite collection policies.
- Exceptions should be allowed only for special cases. For example, it would be reasonable to accommodate a tenant who is paid a few days after the day that rent is due.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

18



Credit and Collections 3/4

- While laxities and grace periods may be justified in some business arrangements, late payment clauses (regardless of the amount of the penalty) are counterproductive in rental lease agreements.
- The main protection that property managers have for their percentage based income is to insist on regular rental payments.
- There should be no idle threats but rather a set of enforceable (and enforced) rules regulating collections.
- For example, as standard operating procedure, the management firm could have the established policy that rents are due on the first of each month, late on the second, with first notices of delinquency being sent out then, and eviction notices issued for all accounts that are past due for longer than a week.
- Door knocking by management should begin on the third day.
- Exceptions would be made only with cause and as little publicity as possible (lest other renters claim similar rights for deferred payments).

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

19



Credit and Collections 4/4

- Any favoritism in rent collection must be avoided. The tenant who has missed one rental payment is in a tight position, not only for the overdue payment but also for making the next payment.
- To carry someone on credit is asking for trouble; it is against the tenant's long range interests and those of the property manager and the property owner.
- By screening the tenant before asking for a lease to be signed (for example, through a credit check), most collection problems can be avoided.
- While credit is important in the selection of tenants for all types of properties, questions about credit for commercial and industrial tenants are unique in themselves.
- They are less complicated than those questions concerning the credit of residential tenants. Because of the complexity of residential tenant credit.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

20



Rental Collection Policy 1/6

Real Estate Management

- It is an accepted policy that rentals whether for office, store, loft, or residence be paid in advance.
- Monthly rentals are usually due on the first day of each month.
- It is the practice for some property owners and managers to have rents due on the anniversary of the date on which the tenant moved into the property.
- This is a poor practice and hinders efficient rent collection.
- There is a definite advantage in having all rentals due on the first day of each month: most bills for operating expenses are paid on the tenth of the month.
- Time is important, therefore, in all phases of property management.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

21



Rental Collection Policy 2/6

Real Estate Management

- Despite this emphasis on rental delinquencies, it must be pointed out that most tenants pay their rents promptly.
- In a well run real estate management office, more than 75 % of all rentals due on the first day of each month will be paid on that date, and more than 95 % of all rentals due on the first day of the month will be paid before the fifth of the month.
- Any deviation from these norms is probably due to the management firm's inefficiency rather than to the quality of the tenants.
- Students of property management must realize that tenants will pay their rents as promptly as the efficiency, effectiveness, and reasonableness of the property manager's collection policy permits.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

22



Rental Collection Policy 3/6

Real Estate Management

- Having tenants fulfill their financial obligations requires prompt action when rent is not paid on the due date.
- If the property manager does not act immediately, the tenant loses a sense of responsibility and becomes slack in rental payments.
- Tenants may be inclined to delay any monetary payments: there are so many demands on their income either business or family that they will put off those that are least pressing, or not in line with their priorities.
- Therefore, the property manager's continuous supervision is essential to a successful operation.
- The only sound policy is to collect promptly or initiate legal action.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

23



Rental Collection Policy 4/6

Real Estate Management

- Management firms often fear that aggressive collection action will result in vacancy.
- This is especially feared in a declining market period, when general vacancy may be high.
- In these periods many managers tolerate substantial rent delinquencies rather than take action that will result either in the payment of rent or eviction.
- The manager must realize that it is better to have a vacant apartment than a unit on which the tenant is not paying rent.
- After all, when a space is vacant, a small saving can be made in heat and wear and tear.
- Also, there is a chance to find a tenant who will pay the rent.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

24



Rental Collection Policy 5/6

- There are several methods that will produce prompt payment by tenants.
- The first, and most important, is a clear-cut original understanding between the property manager and tenants.
- When a tenant applies to lease an apartment, office, or store, the person who takes the application should explain to the prospective tenant that it is management's policy to take immediate action against tenants when rentals are not paid promptly. This warning can be made in a firm but friendly manner.
- The property manager should repeat the warning when the prospective tenant's credit has been approved and final arrangements are made for transferring possession of the space.
- In this way, the manager will emphasize the point and hopefully avoid the embarrassment caused by unexpected and rigid collection methods.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

25



Rental Collection Policy 6/6

- When a tenant is delinquent, money is actually being taken from the landlord.
- The property owner is furnishing the tenant with the facilities and services that were promised only in return for rental payments.
- Just because the tenant does not pay the rental when it is due does not release the owner from the responsibility of the space and paying its prorata financing charges as well as the taxes attributable to it.
- The property owner, therefore, is actually advancing money to the delinquent tenant.
- When this situation is explained to tenants, they can see their negligence in a different light.

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

26



Real Estate Management

Thank you

Feb-05

CH 7-Tenant Administration
By: Ali Alshammari

27