

Module 15: Property Management

- What is property management?
- The overlap with letting agents
- What property managers and property management companies do
- Are property managers, agents of the landlords?

Topics covered in this module:

- What is property management?
- The overlap with letting agents
- What property managers and property management companies do
- Are property managers, agents of the landlords?
- Why property management is a great career

Property Management – 5m 51s

15.1 Introduction

Property management is an essential element of the real estate business.

It dovetails with the work of Letting Agents, so property managers often take over the functions of a letting agent.

The exact functions that a property manager will fulfil depend on the terms of the contract they have with the landlord. They could be purely administrative or the job could entail a mix of administrative and maintenance work.

Property managers are more usually found in the residential and commercial property sector as opposed to the industrial or retail sectors. This is because the tenants in industrial and retail properties usually undertake management, maintenance and upkeep of the buildings themselves.

Landlords and companies that invest in residential and commercial buildings, or office space, are usually investment specialists. They don't have the capacity to administer and look after the day-to-day fixing, cleaning and servicing of the buildings in their portfolios.

It would probably complicate their human resources function to have property managers and handymen on their payroll along with their usual category of employee, which would be clerical and professional types like economists, lawyers and the like.

To resolve this issue and to be certain that their investments are being well looked after and maintained, landlords turn to individuals and companies that offer professional management and maintenance services.

15.2 What Sort of Animal is a Management Company?

A wide range of services can be found in the property management services niche of the economy.

The companies in this area range from small, one-man bands that manage one or two properties and

carry out the repair and maintenance work themselves, through to larger concerns that have several staff members and working relationships with contractors who handle the physical maintenance of the properties the company manages.

The small, one and two man operations are usually staffed by the owner of the business and a partner or assistant. They will have the skills to handle the usual building manager functions of residential administration, maintenance and repairs.

They are unlikely to have the skills or the qualifications to tackle jobs that would require high voltage electrical supply work, major water reticulation repair or any construction work.

Furthermore, they would not have the time to be involved in big maintenance jobs.

They will be more likely to have jack-of-all-trades skill sets. They would be perfectly able to sort out light electrical, plumbing, roofing and flooring issues. They would also be adept at fixing cracked windows, broken hinges, jammed locks and faulty taps.

Because of this, they will offer their services to landlords who have portfolios made up of residential properties, more specifically, houses and single and duplex flats. If they have clients who own apartments in high rise buildings, they will have contacts with contractors capable of tackling repairs to heavy duty services.

The larger management companies, with their bigger staff contingent will more than likely have people who can handle the lighter jobs as a matter of course. For bigger, more complex maintenance jobs, they will have contracts with specialists whom they will call in at short notice.

These people will be specialists and will be able to handle unusual jobs like elevator repair and servicing, heavy current electrical work and running repairs on things like the water reticulation systems in blocks of flats.

Apart from building maintenance, property managers also handle all the financial and administrative affairs of the landlord's buildings. They will select tenants, organise tenancy contracts, collect the rent and ensure that all necessary taxes and revenues are paid on time.

They will also handle what could be called the public relations side of tenant relationships. They will be the people the tenants go to when they have queries and issues relating to their accommodation or rent. It is often very unusual for the tenants to meet or even know who their landlord is.

By having a property manager to deal with the day-to-day running of the properties, the landlord knows that any problems that arise can be quickly dealt with and will not become major issues that will take a lot of money and man hours to remedy.

In turn, this means that the properties will not deteriorate and will therefore keep their value and appreciate over time.

15.3 Why Landlords Contract Management Companies

It might seem that if a person decides to develop a property portfolio, they would want to be deeply involved with their assets and ensure that their property was growing and appreciating in value.

If the landlord has one or two properties, you will probably find that he or she is either just setting out to build a much bigger portfolio, or that they are satisfied with a small portfolio and have no intention of expanding it.

In some cases where a landlord has only a few houses to manage, they will do it themselves while seeing to a full-time job as well.

However, even a small portfolio can be a bigger handful than one would expect and there is bound to be times when the self-managing landlord wishes that they had someone else to see to their properties.

Management companies take on portfolios of any size and the advantages for landlords with small and large portfolios are the same - it's just a question of scale.

The benefits of hiring a management company spring mainly from the fact that a good management company is in constant touch with what is happening with the buildings under its watch. This enables them to respond to matters as they arise and they are there to do just that.

If a landlord is managing his or her own properties, there is a very real chance that they could be out of town when a tenant reports a burst pipe in the kitchen. Or a tenant suddenly decides that they are not going to pay the rent. This means that the landlord has to launch into what could become protracted negotiations which could lead to court action.

The end result could be an enormous amount of time spent chasing one month's rent and then having to evict the tenant. This will then lead to the whole process of finding a new tenant and the loss of rental while the premises stands empty.

Having someone whose focus is to handle everything to do with the properties is a prudent move.

Let's take a detailed look at what property managers offer landlords:

- Starting with the day-to-day management of the buildings, property managers will be on hand to respond to queries and reports of faults in the building. They will respond quickly and ensure that the problem is resolved in good time. This has two benefits: first, the tenants will be far happier because they don't feel that they are being ignored; second, if the complaint concerned a fault like a leaking tap or a broken window, the fault will be mended quickly which keeps the property in good condition and again, keeps the tenants happy.
- With the property manager in control of collecting rent, if a tenant does not pay the rent by

automatic electronic means, the manager can arrange to collect the rent themselves. This helps the tenant stay up to date with the rent and saves the landlord having to chase arrear rentals. One of the problems with tenants who fall behind with their rent is that it is often notoriously hard for them to catch up.

- If it appears that a tenant is always struggling to meet rent payments, a compassionate property manager will handle the situation diplomatically before it develops into a legal battle that has no winner. If the manager is in control of several buildings they may be able to move the tenant to a less expensive home and find a new tenant for the vacant premises. In this way, they will keep the tenant and gain a new tenant without losing more than a month or two of rent. What they avoid is the unpleasant and often protracted and costly matter of having to evict a tenant and then pursuing the unpaid rent through legal action which will exacerbate the cost of the procedure for the landlord.
- Scheduled maintenance sometimes needs to be carried out on buildings and it may involve a lot of noise and mess. Because of the nature of the work, having people in residence is not practical. A building manager will be able to negotiate with tenants to possibly move temporarily to another premises while the repairs are carried out, or have them done while the tenant is away on holiday, for example.

FACT

£364bn of commercial property is held by UK and overseas investors, an increase of 27% since 2003. (2013)

Source: indirex.com

15.4 The Formal Landlord - Property Manager Relationship

There are various levels at which a property manager can operate.

In the simplest sense, the landlord could employ a person in a clerical position. This person would then see to the administrative aspects of looking after the properties without having any signing powers. They would not have the authority to act without the go-ahead from the landlord.

For a property manager to function in the most effective way, he or she would have to have a certain degree of autonomy. There are many small, day-to-day issues that require immediate action. For the manager to have to revert to the landlord for everything would introduce inefficiencies that would make the manager ineffective.

For the landlord/property manager relationship to be truly effective, there has to be a detailed contract stipulating what powers the property manager has and what the limit of their responsibilities are.

The landlord for their part would have to sign a partial power of attorney giving the property manager sufficient authority to act on the landlord's behalf in matters relating to the property portfolio.

The landlord would have to be sure to retain the services of a property manager with the correct skill sets to manage their property portfolio. A person with too little experience could damage the assets, while a person who has experience with properties that are much larger and more complex than the properties in the portfolio will probably charge rates that would be too high for the service the landlord requires.

Getting the right balance of experience is important, as well as finding a property manager who will be able to deal with the tenants that typically live in the types of buildings that the landlord owns.

The legal nature of the relationship between a property manager and a landlord is one of agency. The law of agency is well established and there are many cases that help define the extent and scope of an agent's responsibility and powers.

As an agent, a property manager owes his principal, the landlord, a duty to exercise reasonable care and skill in the execution of his or her functions.

As a very basic example, if the property manager sees that a water pipe is showing signs of rusting, they should see to it that it is repaired immediately. If they fail to do this, they are neglecting their duty to act with reasonable care and skill.

If the water pipe bursts and causes water damage to the premises, the manager will be liable for the damages that the landlord suffers as a result of the water pipe bursting.

The manager also owes the landlord a duty of obedience, which supersedes the duty to act with reasonable care and skill. What this means is that the property manager must stick to the instructions given by the landlord, even if it means that the landlord will suffer some sort of loss.

For instance, the landlord may have issued an instruction that the property manager is only allowed to purchase weatherproofing material from a specific supplier and that they may only contract one specific company to install the weatherproofing.

One night a storm damages the roof and rips the weatherproofing, causing a bad leak. The manager stops the leak as much as they can and in the morning calls the supplier to order the materials needed, and the contractor to come and install it.

The supplier and the contractor have gone off on a fishing trip for a week and there is more rain forecast. If the manager exercises his or her duty to act with reasonable care and skill and calls in another contractor with alternative supplies, they will be in breach of their duty of obedience. If the alternative contractor installs the material incorrectly and the property suffers damage, the manager will be liable for the damage.

If the manager sticks to their specific instructions and waits for the supplier and contractor to return, regardless of what damage is done by the storms, the landlord will not be able to hold them liable.

The only time an agent can refuse to obey the instructions of their principal is if his or her actions involve, or would result in, a criminal act.

To avoid situations that could end in misunderstanding, there must always be a contract between the property manager and the landlord.

The courts point out that detailed instructions are vital and if an agent disobeys them, they will automatically be responsible for any loss that the landlord suffers.

Because of the severity of the consequences of a manager not obeying a landlord's instructions, it is essential that they be put in writing. This must happen when the instructions are first given and if and when they are amended.

Verbal instructions can be forgotten, or, as is more likely, misinterpreted or incorrectly remembered. They can also be ambiguous. When people write an instruction down, the people who are party to the conversation can immediately know whether or not the instruction has been correctly understood.

The contracts that landlords and property managers sign must clearly define what the manager is going to do for the landlord. Nothing must be left to assumption or be left for someone to imply that something was meant to happen. Everything must be clearly stated.

Drafting a detailed contract is time consuming, but it is not difficult. If the original document is not drafted by a lawyer, then the proposed final draft must be thoroughly checked by a lawyer.

The cost of hiring a lawyer to draft or check the agreement before it is signed will be far outweighed by any legal fees the parties will have to pay if there is a dispute which has to go to arbitration or court.

The agreement should state clearly what services the property manager will be providing and what action will be taken to resolve specific situations.

With a professionally drafted contract, the instructions will not be open to interpretation, which

means that the people involved will know exactly what their duties are and what they will be expected to do and to whom they will be expected to report in any particular situation.

Being thorough and specific in the drafting of a contract also means that the definition of reasonable care and skill will not be as open to interpretation as it is when there is no contract, or worse, when there is a badly drafted, vague and ambiguous contract.

It is vitally important to remember what a property manager is being asked to take care of and how serious the consequences of any neglect on a manager's part can be.

Where properties are concerned, there is a great amount of capital investment at stake. Say for instance, a manager neglects their duties and the pipes on a house freeze and burst. The damage that occurs could cost tens of thousands of pounds to rectify. The consequences flowing from a damaged or badly installed gas line could be fatal. A tenant could quite conceivably be killed by an explosion or die of asphyxiation.

This example also clearly illustrates that a property manager owes a duty of care and skill to both the landlord and the tenants of the landlord's properties.

15.5 The Services a Property Manager can provide

As mentioned before, a property manager can provide a range of services.

The following is a list of most of them. What individual managers agree to provide will depend on what the landlord requires and, in some cases, may extend to include concierge services if the landlord lives in another county and only visits from time to time.

Although many of the property manager's functions can also be carried out by letting agents, a property manager will be more involved with the properties and far more hands-on.

Because the manager deals with the properties every day, they will know the condition of them and will be on far better terms with the tenants than a letting agent who will not have the same level of involvement. The letting agent will only really be concerned with the initial lease and then making sure that the rent is paid each week or month.

Starting with property maintenance and upkeep and then moving on to management, here is what property managers can do for landlords:

- Maintenance of grounds and buildings. The manager will be briefed to make sure that the grounds and buildings are kept in a consistently good state of repair. They will schedule regular inspections of common areas in places like blocks of flats, or regular visits to houses that are being rented out. Where flats are concerned, the inspections will be quite frequent. Tenants are not obliged to maintain common areas, so the manager must personally inspect to see that all is well and that the properties are maintaining their value. Work that needs to be done will either be effected by the manager, or they will bring in a contractor to do the work. Whichever way they choose to do it, they must put the interests of the landlord uppermost. They must ensure that the work is done to an acceptable standard and that it is of a standard that is commensurate with the quality of the buildings. Their actions must always result in the maintenance or improvement of the value of the landlord's assets.
- A substantial asset in a residential portfolio is a good tenant. If the property manager is tasked with keeping the residences occupied, they have a duty to find suitable tenants. These will be people who respect the property and the rules that may be laid down by the landlord and the local authority, and pay their rent on time. To do this, the manager must be aware of the value of the property by comparing it with other similar properties. They must be aware of the amount of rent that they will be able to ask for.
- Once the rent has been established, they will then put together a portfolio of the property for advertising and marketing purposes. They will have to either take photographs of the premises themselves, or if the property is at the high end of the market, they might decide to have them professionally taken. The results must show the property to its best advantage. The portfolio must also contain a written description of the premises. This must detail what the premises comprises - how many rooms it has, how many bathrooms and so on. The purpose of putting marketing material together is to present the property in an attractive light without getting too creative. The highlights that are pointed out must actually exist and be evident to anyone looking at the property. If the description stretches the truth too much, people will be put off the place and it will be difficult to secure tenants.
- The manager must now advertise the property by placing ads in the local newspapers, on two or three online property portals and by displaying To Let signs on the building itself.
- If there are more than one vacant premises in the portfolio, the manager will advertise them all at the same time. One of his or her duties will be to have maximum tenancy in the buildings in the landlord's portfolio.
- One of the first things the manager will have obtained is a lease agreement. These can be obtained online, but it is preferable that agreements are drafted by a person with legal experience. Several of the large property management companies have trained lawyers on their staff.
- As people start responding to the marketing campaign, the manager will interview the applicants and make a shortlist from which the final selection will come.
- The next step is to show the property to people who would like to see it. This can be done individually, or in groups. Properties at the higher end of the market may be shown individually and in the same manner that a show house is shown. The manager will do this if they are trying to maximise the rent received for the house and plan to take offers on the rental from interested parties. If there is a shortage of prime properties for rent, then it may

well be feasible to ask for offers on the rent. It is a way of maximising the return on the landlord's investment.

- One of the duties the manager has is to find a tenant that is suitable for the premises. For this, they will have to rely on background checks and, to a degree, on their intuition. It is never possible to know from a few meetings if a person will be a good tenant, but one can get a reasonable idea if all the checks are done and time is spent interviewing the people on the shortlist.
- When some likely candidates have been selected, the manager must ask them for their details and for references from previous landlords. Financial and character background checks must be carried out, and it is now the landlord's responsibility to ensure that the person applying to rent the property is legally allowed to be in the United Kingdom. The same check must also be carried out for all people over the age of 18 who will be living in the home with the applicant. For the financial checks, the manager must have proof of income and bank statements that are no older than three months.
- If more than one applicant clears all the checks, the manager must decide to whom the property should be rented. They will either go with the notes and character references, or they might decide to have a final round of interviews if they feel they cannot make a decision on the information to hand.
- The person who clears all the checks will then be required to sign a tenancy agreement. As a precaution, the manager will read the entire agreement out to the new tenant. This is a wise thing to do. It pre-empts the tenant from being able to claim in the future that they were not made aware of any of the clauses in the agreement. It also gives the tenant the opportunity to ask any questions that they may have about the lease and the property.
- With the lease agreement signed, the manager will hand the keys to the tenant along with a form to be filled in once the tenant has taken occupation.

This form is a check that the tenant is obliged to carry out during the first few days that they are in the house. They have to note any defects or damage in the house and make a record of it. This will be handed to the manager who will then see to the repair of the items. If they are not repaired by the time the tenant moves out, there will be a record of the defect and the manager will not be able to hold the tenant liable for the damage and repairs.

When the property is fully let, the manager spends time ensuring that the portfolio is run to the best advantage. It is his or her duty to look after the properties to ensure that the value of the landlord's investment increases.

If the manager fails to do their duty, then the properties will start to degrade and lose value.

In the course of carrying out proper maintenance, the manager must ensure that the people contracted to work on the premises are competent and qualified for what they do and charge a reasonable price for their services.

They must also use materials that are designed for the job they are doing and are of a quality that is

appropriate for the building they are repairing.

This may seem to be a trite observation to make, but consider this: If the building being repaired is an upmarket house with high quality finishes, the landlord's investment would be devalued if a person claiming to be an electrician came along and replaced a burnt out light fitting with a cheap plastic fitting from the local hardware store.

The other aspect the manager must pay attention to is the going rate for the services he or she contracts out. For anything beyond basic maintenance, they ought to obtain quotes and then select the most appropriate contractor at the best price.

This does not mean choosing the contractor who put in the lowest quote. It is bad policy to accept the lowest quote for anything without first having a full breakdown of how the quote was arrived at.

Quotes that are so much lower than competing quotes are usually faulty. Contracting a company with a low quote almost always results in problems with materials, workmanship or both.

It is probable that managers with experience have working relationships with maintenance companies that are prepared to sign service contracts for set periods of time and set fees for call-out and labour.

Because the property manager is looking after the landlord's interests, they have a duty to query contractors if they think the contractors are charging excessively.

Where a property manager has the skills and the time, they could elect to effect repairs themselves. As long as the work does not have to be carried out by a qualified technician, then this could be a suitable arrangement for both the manager and the landlord.

In this situation, the manager must always be aware of charging a competitive rate for their services. This is advisable, because if the relationship with the landlord were to sour for any reason, the manager could find themselves facing civil action and having to refund some of the charges.

15.6 Ensuring Maximum Occupancy

An integral part of a property manager's function is to ensure that the properties they manage have optimum occupancy at all times.

An empty unit in the portfolio, represents return on investment that the landlord is not realising.

The manager needs to stay in close contact and on good terms with the occupants of the properties he or she looks after and they need to find ways to boost the income from the properties.

By staying in touch with the tenants, the manager will know what their plans are and what they are thinking of doing in the future. Say, for example, that a tenant in one of their prime flats tells the manager that they are saving so that they can go travelling for a few years and that they need to talk to the manager about giving notice on the lease to look for a cheaper flat.

A creative manager could suggest that the tenant changes the lease for a smaller flat within their portfolio. This will mean that the tenant will not have to go through the whole flat hunting gauntlet, the manager keeps a good tenant and will be able to redecorate the larger flat and attract a new tenant at a higher rental.

In the process, the manager has increased the overall value of the landlord's portfolio.

Upgrades and Improvements

The landlord will have to contribute funds for improvements on a regular basis. Improvements and upgrading projects need to be planned and budgeted for. Both the landlord and the property manager need to constantly assess the properties to see if there are ways to improve them.

Where upgrades and improvements are made, the landlord can justifiably increase the rental when tenancy agreements are renewed or when new tenants take occupation.

Most landlords have a factor that they use to work out if an improvement will be worth doing. The rent is not the only element that increases when viable upgrades take place, the overall value of the property also increases. This impacts on the value of the portfolio and thus on the landlord's financial standing.

Phasing repairs

The small running repairs that have to be carried out on all buildings are done without too much inconvenience to the tenants. Bigger repairs and renovations have to be planned and scheduled months before they actually take place.

When houses or apartments need major attention, the manager will wait for the end of the current lease so that they can schedule repairs and upgrades without inconveniencing any of the tenants.

15.7 Legal Requirements for Property Managers

There are no legal requirements or qualifications that a person needs to adhere to or achieve before they can become a property manager.

There are associations that provide education and bestow qualifications on people who work as property managers. It is well worthwhile to be a member of one of these bodies as it lends a tremendous amount of credibility.

The Royal Institute of Chartered Surveyors is one, and the other is the Association of Residential Letting Agents.

There is a requirement that, if a person is working as a property manager, then, since 1st October 2014, they must belong to one of three Government approved redress schemes.

Redress schemes have been put in place to give landlords and tenants in the residential sector an independent body with which to lodge complaints where they have received bad service from a property manager.

The requirement is enforced by local authorities who may impose a fine of up to £5000 on a property manager or letting agent who should have joined one of the schemes but has failed to do so.

The three schemes that the agents and managers can choose from are:

- Ombudsman Services Property (ombudsman-services.org/property.html)
- Property Redress Scheme (theprs.co.uk)
- The Property Ombudsman (www.tpos.co.uk)

15.8 Why Property Management is a Great Career

Property management can be a meaningful, rewarding and exciting career path for the right person. Besides, the role is often diverse, demanding and central to the real estate industry. While the job can be stressful at times, your attitude, approach and mindset often determines your ability to cope.

What's more, as a property manager, you can expect to earn anywhere between £23,000 and £60,000 per year – or more – depending upon your experience and the number of properties under your portfolio. The average salary is approximately £ 32,500 for residential property managers while commercial property management generally offers higher salaries.

You can begin with administrative tasks in a property management firm, move on to an assistant property manager position and then graduate to becoming a full-fledged property manager with a team.

There are plenty of job opportunities for property managers in the UK as landlords do not wish to be saddled with the responsibility of finding tenants and grappling with day-to-day hassles.

Property management does not require formal qualifications – GCSEs and training is usually the pre-requisite for a career in property management. However, applying for membership with a regulatory trade body like ARLA can lend credibility to your profile.

Required skills include:

- Excellent communication skills (both verbal and written)
- Basic knowledge of accountancy is a plus
- Computer literacy with special skills in Word, Excel and Email writing
- People skills and problem solving ability
- An eye for detail while working on the larger picture
- Presentable, articulate and approachable
- Exceptional social and customer services skills

Property management companies usually prefer recruiting candidates with top-notch people skills and train them in the technicalities of the field.

Take a Quick Recap Test

[viralQuiz id=215]

Summary

Landlords need property managers to maximise the returns on their investments. A good property manager is worth their weight in gold. One may think that it is only in the landlord's interests that their portfolio increases in value, but this is not the case. Property managers and property management companies are paid a percentage of the gross rental income of the portfolio they manage. Depending on the services they require, landlords will pay between 5% and 15%. It stands to reason that if the value of the portfolio increases, so too will the gross rental that the properties will attract.

In summary, the chief benefits a property manager can offer a landlord are:

- To improve the properties so that the amount charged for rent can be maximised
- To deal with tenants in such a way that they are happy with their accommodation and pay their rent regularly and on time
- To retain high quality tenants and avoid taking on unsuitable tenants
- To make sure that all rents are paid on time and investigate and try and solve situations where a tenant seems to be a serial late payer
- To manage repairs and negotiate the best rates for the best service from contractors in order to keep maintenance and repair costs to an acceptable level
- To ensure that the properties in a landlord's portfolio appreciate in value.

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