Introduction

Practical Apartment Management had its beginning some 34 years ago as required reading in many real estate education programs. The book has continually been an industry best-seller and is used by many seasoned managers as a ready reference source. It has evolved through five editions, keeping in step with the advancements and continual changes in operating procedures. This new, sixth edition has been expanded to 24 chapters, and it has been completely rewritten to bring readers the most current techniques and timely advice concerning the management of residential properties. In just the past five years alone, almost every aspect and management method has undergone significant changes. In the pages that follow, you will find hundreds upon hundreds of these new ideas and techniques.

The most dramatic changes are occurring in what is now being offered in the way of accommodations, appointments, and a completely new menu of amenities and resident services. For example, apartment sizes and, particularly, their new layouts are far superior to those from the past. Their openness, finishes, and inclusions—such as personal laundry facilities—give them the look and feel of a true home. Many now take advantage of the array of electronic innovations such as high security locks, alarm systems, fiber optic cabling, and wireless communications. While the improvements in this sampling are probably reserved for new construction, there are many, many upgrades, retrofits, and add-ons that can be adapted to existing rentals. This is also true of many of the new amenities and resident services. These changes and improvements are discussed in detail within this edition.

About one half of our departing residents leave with some level of dissatisfaction. The book features simple forms and methods of acquiring candid advice from those very individuals. It has been a long time coming, but the industry is just now beginning to measure the days lost between rentals and the boost in bottom-line profits that comes from lengthening each resident's stay. Simple changes to the computer program used to manage the apartments make these measurements and comparisons possible.

In addition to what is new, different, and better in apartment management, this edition details and updates all of the industry's basic fundamentals of property preparation, marketing and leasing, rent setting, collections, maintenance, and business support functions. It is written and organized to be used as an ongoing reference tool.

GETTING STARTED

There are a few concepts and principles that act as a prelude to the study of apartment management. First of all, the management of multi-unit housing can be separated into two broad segments: renter-occupied and owner-occupied (e.g., condominiums, co-ops). Both property classes involve the properties' operation, upkeep, preservation, and fiscal concerns. The primary difference resides in rental properties' competitive marketing needs, the perfecting of ways to lengthen the stay of its residents, and the owner's profit motive and valuation concerns. A primary function of managers of owner-occupied properties is to act as a liaison between the elected board and the unit owners. They are called upon to maintain a high level of maintenance and to minimize assessment increases. Property managers often make the switch between these two types of clients. Interchanging the different skill-sets required for different clients is a valuable learning process.

THREE HOUSING GROUPINGS

Residential rental properties can be categorized by age, size, rent level, or a mixture of the three. It would be convenient to say that older properties are dealt with in the same manner as new properties, large properties operate the same as small properties, and the price of housing doesn't play an important role in its management; however, each of these variations produces a new combination of challenges.

- **Old versus New.** Housing grows old and tired. Staying on top of this process is certainly a "do or die" matter. There isn't a status quo in the residential housing world. Every owner who has tried to stretch too much life out of a deteriorating property eventually loses. As property managers, you will be challenged to sell some owners on slowing the aging process with sensible updates, while cautioning other owners from overinvesting in properties with limited potential and/or declining locations.

Today's housing customer is keenly aware of what's new and what's not. Properties built in 2000 and after look, feel, and function differently than their older cousins. We have all seen a similar evolution in motels, and they only have to attract and satisfy their customers for a single night. These next years will introduce a steady stream of remarkable design changes and improved technology in the housing inventory. Managers must be prepared to recognize and satisfy housing customers' changing lifestyles. We will pay considerable attention to this phenomenon.

- **Small versus Large.** Managing small properties has its advantages. There isn't an intense level of competition in acquiring this management business, and their structure and mechanical systems are comparatively simple. The list of disadvantages is a bit longer. It takes a number of accounts to make managing small properties financially viable, and consequently you may end up doing more driving than managing. It doesn't take many vacancies to seriously hurt finances, and there are few economies of scale. And every property, even the small ones, requires nearly the same amount of reporting and owner consultation.

  Larger properties can vary from 24 units to 2,000 or more. These properties bring with them an escalating set of situations such as staffing, resident attraction, retention and replacement, structural and mechanical complications, complex financial affairs, and more. But the larger and more difficult properties mean bigger paychecks, and those up to the task of this sort of management are almost always in the highest demand.

  Property management offers a very unique business opportunity that is different from many typical business operations. You will not be confined to a padded cube repeating the same tasks over and over. You will be out and about, interacting with people and addressing ever-changing issues. You cannot be successful in property management while just sitting in an office. You need to know the property and what is going on with it. From the start, you will be charged with meaningful responsibility over assets worth millions of dollars. It is one of the few businesses where a single individual can have the deciding effect on a property's direction and viability.

  In my experience, I have witnessed hundreds of situations in which a property was in a tailspin. These properties looked bad, suffered undue moveouts and slow rent-ups, suffered major collection problems, and had staffs at the point of mutiny. The excuses were always multifold. Then, in desperation, a replacement manager would be appointed. Within months, positive changes would begin to occur. The property would clean up, vacancies would lessen, delinquents would leave, and the staff would begin to pull together as one. Success breeds success, and the property makes its way off the list of underperformers. Of course, these turnarounds do not go unnoticed. The manager who effects such positive change is soon tapped to perform the magic on another, perhaps larger, "problem" property. An individual with these skills usually moves to the front of the line when pay raises, bonuses, and promotions are considered.

- **Low Rent versus High Rent.** Managers handling properties in the lower end of the rent spectrum face some challenging issues. For many residents, affordability is the major issue. Households with lower incomes face many of the same basic living costs as those with higher earnings. One third of the country's households spend more than 30 percent of their income on housing, with one in seven spending more than half their income on housing. This means sacrifices in their basic needs and acceptance of a lesser choice of housing locations and accommodations. Renters who are forced by financial circumstances to remain in the same rent bracket rarely achieve much of an improvement when switching apartments. Factoring in the cost and hassle of moving, with little gain, the result is that those in the lower income brackets tend to stay longer.

  Owners of older properties, in less than the best locations and conditions, must be careful to keep their rents within financial reach. Frugal rents force frugal expenditure, which almost always means minimal maintenance. And remember, these are the older properties, the ones most in need of an increasing maintenance allowance. For this reason, as well as less and less government assistance, the housing supply that serves those in the lower to moderate rent quartile shrinks each year.

  Meanwhile, in the better-located, newer properties, rents are more likely to keep pace because of enhanced layouts, features, appointments, amenity packages, and customer service. Lately, the sizes of new residential properties appear to be concentrated with those that contain either a small or a rather large number of units. The smaller properties, some with as few as two to six units, are often placed on random lots, especially in choice urban areas. Meanwhile, larger tracts are being assembled, particularly in *close-in locations* and those with quick access to mass transportation, in order to fill a growing market demand. These properties have much higher unit densities than we have seen in the past, and their construction quality is more substantial.

> While also more expensive to build, they offer many operating efficiencies, improved levels of resident services, and higher levels of security and control. Many of these newer, larger properties have almost the atmosphere of a resort or luxury hotel about them; things "look right and work right." Rent is a consideration, but not a driving force.

Having just outlined the extreme ends of the three basic property differences, you might decide that a new, large property with high rents would be just the perfect fit for your management endeavors. But don't count on that happening. Each of these three property categories has a myriad of variations, which produce an infinite number of permutations. Most likely, your early property management assignments will involve lower-end properties.

LOCATION

Intertwined with the three property types is real estate's most important influence: location. People ignore all sorts of problems when the location is right. Location dictates much of the success or failure of a given property, often even more than the skills of or programs introduced by the owner or manager.

The distance and time between home and work locations is of critical importance to many commuters, and this will be discussed in detail later in this edition. We will explore the effects of demand with the costs of fuel, parking charges, and wasted travel time. It should be noted that close-in locations and those conveniently serviced by mass transportation are enjoying a resurgence in demand as the costs of fuel, parking, and time spent traveling continue to climb. You can expect dramatic increases in the number of building renovations and new developments prompted by this new demand.

The basics outlined in this book can be applied to an ordinary property in an excellent neighborhood in order to make it very successful. On the other hand, you can invest a great deal of money, imagination, and energy into a property in a declining or marginal location only to realize limited success. Unfortunately, there are the unseasoned real estate investors and developers who have difficulty in distinguishing a marginal property with good location potential from one with little or no potential. Properties and land in poor locations are comparatively inexpensive and, thus, appear to be bargains. Realizing that it may be difficult to find buyers for their poorly situated real estate, sellers are inclined to take back financing or offer other purchase incentives. To many novices, a lower price and special purchase arrangement are irresistible. Nevertheless, a poorly located property is seldom a bargain and usually produces mediocre profits at best.

What defines a poor location? Many factors contribute to community neighborhoods or pockets acquiring bad reputations that are hard to shake. Housing near industrial areas is frequently downgraded, as are residences with noise or odor problems. More recently, traffic congestion and security issues have spoiled the appeal of some neighborhoods. There are also complete neighborhoods of buildings that can no longer attract caring residents and are undergoing an accelerated rate of decline. Often the neighborhood's infrastructure is being allowed to decay. As the resident profile declines, incidents of drugs, gangs, crime, and domestic disturbances increase. A level of fear and disgust finally drives away those who have other options. These vacancies are then filled with replacement tenants who may have no other alternative.

In this study of the property management business, we will learn to identify and adjust to different locations and property types. This sixth edition of *Practical Apartment Management* discusses the types of ownership entities, their investment goals, and their methods of financial measurement. It provides a step-by-step analysis of the people who occupy housing, introducing readers to prospective renters, their expectations, and their willingness to pay. We will spend considerable time learning how to prolong tenant stays, ultimately impacting a property's bottom line. We will put together a renter-friendly set of policies and procedures to help in the government of these mini-societies. Additionally, we will examine all of the different aspects of this most personable service business—dealing with our apartment, but their home. In the end, I believe that you will find property management to be a very interesting, challenging, and rewarding career.