# Residential Resource

The Newsletter of the National Association of Residential Property Managers November 2002

## HIGHLIGHTS of this Issue!



NARPM®

*The Mission of NARPM is to increase the professionalism and ethics of residential property managers.*

# Hearing Examiner Awards Record Amount in Section 8 Case

A city of Seattle Hearing Examiner has awarded nearly $8,000 to a Seattle resident who had accused her landlord of discrimination. The decision upheld a finding by the Seattle Office for Civil Rights (SOCR) from June 2001. The case concerned property owners who pressured their tenant to move out of a leased rental house because the owners no longer wished to participate in the Section 8 voucher program.

The award included $6,151 for extra housing costs incurred by tenant Rhonda Mitchell due to the discrimination, $250 in moving costs, $1,000 for loss of Ms. Mitchell's right to be free from discrimination, and $500 for humiliation and suffering. This is the largest amount ever awarded by Seattle's Hearing Examiner involving an SOCR determination that discrimination had occurred.

In September 1999 property owners Hook Shik Song and Young Song renewed their Section 8 contract with the Seattle Housing Authority, which administers the program locally. Section 8 is a federal program that subsidizes low income people's rents through a voucher or certificate. Shortly after renewing their contract, the landlords began pressuring Rhonda Mitchell to vacate the rental house, because they wished to rent it for more money. After enduring numerous phone calls, Ms. Mitchell and her two children finally moved out of the house.

Ms. Mitchell filed a discrimination complaint with SOCR in January 2000. When the Songs refused to negotiate a settlement after SOCR found probable cause for discrimination, SOCR referred the case to the City Attorney's Office.

"Everybody deserves the chance to live in decent housing, and the Section 8 program makes that possible by providing guaranteed payments to property owners," said Barbara Osinski, SOCR's enforcement manager. "To discriminate against people simply because they are using this federal program is wrong — and in Seattle it's also been illegal since 1989."

The city of Seattle and King County are among just a handful of jurisdictions nationwide that include "Use of a Section 8 certificate" as a protected class in cases involving housing discrimination.

Under King County's ordinances, property managers can refuse to participate in the Section 8 program if they can show a valid business necessity, such as rents that exceed the program's guidelines.

Landlords who participate agree to allow inspection of their property and to make the necessary repairs. In return, housing providers know they will receive steady rent payments through the program.

"Landlords are entitled to claim valid business reasons for refusing to take Section 8 tenants," said Osinski. "But it is not enough to say that cooperating with the Section 8 program will impose an undue burden on their business, without showing how the program will hurt them."

The SOCR investigates cases of alleged discrimination in housing, employment, public accommodations and contracting. Fore more information call 206/684-4500, or find SOCR on the Web at www.cityofseattle.net/civil.

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## *President 2002*

NARPM President
Michael Mengden

Relationships. For many of us, this will be a big part of the future of NARPM and the ability of NARPM to help our businesses flourish. NARPM will never have the number of members that the REALTOR® organization has, we will never have the funds that the Apartment Association has, and we will never have the amount of favorable press that Habitat for Humanity possesses. Yet single-family property managers affect just as many millions of people in their lives every day. So how do we, as an association, *Make a Difference*? Through relationships.

NARPM is at the age where we are now seeing some of this come to fruition. The Florida Chapter (FARPM) was able to change legislation this year in its state due to the relationships the members built across associations, the acknowledgment that they existed by the marketing across these relationships they forged, and their ability to use that to get to the legislature. When we took the NARPM Booth to the Florida Association of REALTORS® (FAR) Trade Show this past August, we joined with the FARPM Booth and really showed a presence. Many REALTORS® came to our booths and knew who we were and knew the importance of what we were doing. FAR's Property Management Committee had many FARPM and NARPM members who even acknowledged me and allowed me to speak briefly at their committee meeting. This is for another association, not ours!

At the Colorado Association of REALTORS® (CAR) Trade Show in October, the director of one of the largest and most prestigious real estate schools in Denver sought us out to help her. The number one requested subject matter from her students was *property management*, and she specifically searched us out to ask for our help in providing instructors and classes.

At the Georgia State Conference in April the Director of HUD for the Atlanta area was one of the speakers. Because of the relationships that were being forged by the Georgia members of NARPM with other organizations, she came to realize the value of our profession and our association. Because of the value she saw in professional managers, she is currently working on a program where if an individual owner agrees to have their HUD-approved lease professionally managed, HUD would pay the management fee.

There are many more examples than this of how relationships are beginning to help us now and in the future. To bring it closer to home, many say the bottom line is always "what's in it for me?" By helping to forge these relationships, more and more people will be aware of NARPM and what it and its members stand for. By creating brand awareness, potential owners, tenants, and vendors will search out the professional manager, the NARPM member. When they do, that brings clients, tenants, and dollars into your business. So use your membership to its fullest potential. If you are a member of another organization, proudly wear your NARPM pin when you attend those functions. Talk about NARPM and your professionalism. Make sure all your signs, letterhead, business cards, office door, and advertising all bear the NARPM logo. By doing these things, by spreading awareness of NARPM, we can all go out and *Make a Difference* in the future of our business and our profession.

Michael Mengden, MPM®
2002 National President

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# Wear and Tear vs. Damage

Security deposits can be used to repair damage for which the tenant is responsible. But the landlord cannot apply the security deposit to normal wear and tear. The question is: What's the difference?

Normal wear and tear includes deterioration of the premises that occurs during normal conditions. For example, paint may fade, electrical switches may wear out and break, pull strings on blinds may fray or break, carpet and tile may wear down. These things happen even if the tenant cleans regularly and cares for the premises reasonably. Damage occurs from unreasonable use or accidents. Damage can include extreme build up of dirt, mold, etc., stains on carpets, and broken windows. Even intentional alterations to the premises are considered damage. For example, the tenant cannot leave large holes in the walls from shelving or hanging pictures and cannot repaint the walls to significantly change the color. If a tenant wants to make changes to the premises that will remain after the tenant moves out, the tenant should do so only with the landlord's written permission.

The parties can, and in some states must, take steps to avoid disputes over damage. At the beginning of the lease term, the tenant should inspect the premises thoroughly and note all problems in writing on an inspection check list. Both the tenant and the landlord should sign and date the list. At the end of the lease, the tenant should again inspect the premises with the landlord present, discuss any damage with the landlord, and check any problems found against the move-in check list.

In several states, including New York, if a tenant commits waste (damage beyond normal wear and tear), the tenant can be held liable for triple the amount of damages. Check your state law to see if the law applies in your situation.

The following incomplete list is intended as a guide to reasonable interpretation of the differences between expected wear and tear from normal residential use and irresponsible or intentional actions that cause damage to a landlord's property.

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| Wear & Tear | Damages |
|---|---|
| Worn out keys | Lost keys |
| Loose or stubborn door lock | Broken or missing locks |
| Loose hinges or handles on doors | Damage to a door from forced entry |
| Worn and dirty carpeting | Torn, stained, or burned carpeting |
| Carpet seam unglued | Rust or oil stains on carpet |
| Scuffed up wood floors | Scratched or gouged wood floors |
| Linoleum worn thin | Linoleum with tears or holes |
| Worn countertop | Burns and cuts in countertop |
| Stain on ceiling from bad plumbing | Stain on ceiling from overflowed tub |
| Plaster cracks from settling | Holes in walls from carelessness |
| Faded, chipped, or cracked paint | Unapproved (bad) tenant paint job |
| Loose wallpaper | Ripped or marked-up wallpaper |
| Balky drapery rod | Broken drapery rod |
| Faded curtains and drapes | Torn or missing curtains and drapes |
| Heat-blistered blinds | Blinds with bent slats |
| Dirty window or door screens | Torn or missing screens |
| Sticky window | Broken window |
| Loose or inoperable faucet handle | Broken or missing faucet handle |
| Toilet runs or wobbles | Broken toilet seat or tank top |
| Urine odor around toilet | Urine or pet odor throughout unit |
| Closet bi-fold door off track | Damaged or missing bi-fold door |

## Affiliate Members Listed By Services

***Access Controls:***
Marwest Access Controls, Inc.
Risco Lock Box Company

***Accounting:***
Thomas C. Roberge & Company

***Advertising:***
Rentalhouses.com

***Business Products:***
Landlordsource.com
Peachtree Business Products
Professional Office Services of ID, Inc.

***Claim Services:***
Home Claim Services
Claim Source One

***Inspections:***
House Master Property Inspections
Service Access, Inc.

***Internet Tools:***
HomeRentals.net
Mayaco Marketing & Internet

***Legal Services:***
Law Offices of DeMartini & Walker
Law Offices of Heist & Weisse, P.A.

***Maintenance***
Allen's All-Stars
Handyman Matters
C&G Contracting, Inc.
De Seung Trading Corp.
Mr. Handyman International
Northern Electric, Inc.
Omega Termite & Pest Control

***Marketing:***
Home Management Network

***Software:***
Copper River Technology Solutions
PROMAS Landlord Software Center
Property Automation Software Corp.
Small Computer Services, Inc.
Winning Edge Software Solutions
Yardi Systems, Inc.

***Telecommunications:***
AMI Telecommunications Corporation

***Tenant Screening:***
Merchants Association of Florida, Inc.
National Credit Reporting
Orca Information
SafeRent, Inc.

For more affiliate information, please visit the NARPM Web site **www.narpm.org.**

# What Is the Real Cost of Resident Turnover?

It's the first of the month, you have received four notices to vacate, and your maintenance man just brought in keys from a skip. How will you ever stay within budget with five additional apartments to prepare and rent? It brings to mind the age-old question, "How much does it cost to turn a unit?"

Just to prepare the apartment for the next move-in, you pay to fully repaint, as touch-ups are rarely feasible. Any spots on the ceiling must also be painted, which increases the cost.

The carpet requires a full cleaning at the very minimum. Many times, a patch or dye job will get you another six to 12 months before replacement is necessary. Replacing carpet can run anywhere from $500 to $1,200 depending on the size of the rental and pad replacement. If you installed Berber the last time, a minor snag may require a full replacement and will cost you even more.

These items are just the bare minimum. You still have to consider the cost of locks, keys, air condition filters, caulk, light bulbs, drip pans, etc. All the miscellaneous maintenance costs can skyrocket quickly.

Rental housing specialists have estimated that it costs five times as much to attract a new resident than to keep an existing one. That is especially true when you consider the cost of advertising, both in print and on the Internet. The time and expense involved in marketing, resident referral fees, and real estate/agent/locator costs also must be factored in.

Then you must consider vacancy loss, concessions, and staff time. When you add it all together, many companies have come up with figures averaging $2,500 to $3,500 in total investment. Some rentals may run more than $5,000 in total turnaround cost.

Once you look at a number like that, you begin to think a lot more seriously about resident retention.

Consider instituting a "make-it-right" policy where the on-site manager has a financial allowance specifically set aside to try to keep any unhappy resident from moving out. It may be to reduce the amount of a rent increase, to replace a carpet or appliance, or to match a current move-in special.

After all, what have you got to lose? Other than maybe a resident and some pretty hefty turnover costs.

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# New NARPM Benefit!

Membership has its benefits and NARPM has just added a new one! Renew your membership by December 31 and you will receive absolutely FREE a copy of the Standards of Professionalism and the Code of Ethics. These 11"x14" parchment prints are suitable for framing. Displayed on your wall they announce to all the standards and ethics by which you operate. Make sure to mark the box on your renewal form!

*Betty Fletcher, MPM®*
*Membership Committee*

# Ambassador Program

NARPM continues to grow, and you are part of that growth success. This year we have a goal of 15 new members per month. Our Ambassador Program allows you to help NARPM achieve this goal and reward yourself at the same time. Recruit five new members in one year, and you will receive an Awards Certificate you can use toward paying your dues or for events for the coming year. To do this, do the following:

- ★ Call NARPM Headquarters at 800/782-3452 and request membership application forms. Headquarters, upon request, will mail the application directly to the prospective member but will not fill in the "referred by" line.
- ★ The 12-month membership period for the five new members starts the day your first new membership application is approved by headquarters.
- ★ When Headquarters receives the fifth new membership, an Awards Certificate will be issued and dated. A Recognition Certificate will also be issued, and you, as the "Ambassador," will be recognized in the *Residential Resource*.
- ★ The Awards Certificate can be used to pay NARPM annual dues, or like amount can be applied toward National Leadership Conference or National Convention.
- ★ It must be used in full at the time of use and attached to your dues or registration for Leadership Conference or Convention. The value of the Awards Certificate is equal to what the national dues were at the time the Awards Certificate was issued. It also must be used within 12 months of the issue date.
- ★ A member can earn only one Award Certificate per 12-month period. However, a member can earn unlimited Recognition Certificates.

# Ambassador Program

**August 2002 New Members**

| *New Member* | *Ambassador Member* |
|---|---|
| Terry James | Anne Pence |
| Marie McKean | Anne Pence |
| Jennifer Parker | Anne Pence |
| Lynda Spindor | Anne Pence |
| Janet Stevenson | Anne Pence |
| Alice Yuhasz | Anne Pence |
| Brenda Needham | Michael Hodges |
| Jennifer Zwisler | JoDee Lucier |
| Danielle Stratton Mills | Jill J. Boles, RMP® |

*Anne Pence from Sequim, WA has achieved her Ambassdor status with 6 referred members in one month. Congratulations Anne!*

## Convention Corner

*By Andrea G. Caldwell, MPM®, Convention Chair*

The concluding event at the jam-packed Atlanta Convention was an invitation to reconvene in Austin, TX, at the Austin Marriott at the Capitol ($124 single/double), on January 16-18, 2003, for a new forum on leadership. The Midyear Conference has been replaced by the Leadership Conference, which, this year, is being hosted by the association at NO COST to the member! You are encouraged to attend to build your leadership skills and learn teamwork. Even though you may never have aspirations to being elected to anything, in this industry, you "lead" every day in your business decisions and day-to-day life.

### Consider What You Can Hear — FREE TO YOU

There will be multiple breakout sessions with such topics as coaching in everyday life, building and managing a committee, conflict resolution, learning parliamentary procedure, continuous quality improvement, and a variety of other themes.

### Consider What You Get to Eat — FREE TO YOU

The conference is going to include two luncheons with speakers addressing "Breaking Negative Stress for Good" and "You Can Cope with Change" and an installation dinner where the 2003 National board of directors will be installed AND Jeanette Cates will be addressing the group on "How to Become an Enlightened Millionaire"!

And that is not all: NARPM joins such luminaries as Oprah, with our first-ever book study group. We will be reviewing the book, *Good to Great*, an outstanding text by Jim Collins. Consider getting the book *now* so you will have it by January and can participate! This session will be moderated by National Past President Melissa Prandi, MPM®.

The Membership Committee is also contributing to the cause by encouraging chapters to send their leaders to this event, so contact Jim Smith, acting membership chair, 512/255-7575, for additional information on how to make this happen with financial assistance from Membership.

Hope to see you all there as we descend onto Texas and learn to lead in the Lone Star State!

# How to Ban Burnout

*By Laura Stack*

Are you overworked, overstressed, overwhelmed, and overcommitted? Are you constantly tired and irritable? Are you experiencing distressing physical symptoms such as crankiness, headaches, back pain, and intestinal problems? You could be well on your way to burnout. It's important for you to recognize the signs of burnout before you hit the wall, so you can make some necessary changes.

Some experts believe that burnout comes from unusually high expectations that are, in reality, illusions. For example, you think you can do it all, but are overwhelmed by the reality that you can't. We are all at risk. The people most susceptible to burnout are those who feel they either have no control over their work and/or have been given more responsibility with fewer resources. New statistics show that it's young, front-line employees and middle managers that suffer the most.

### Learn to recognize the five stages of burnout:

1. **Physical:** Loss of appetite, extreme fatigue, back pain, tension headaches, minor accidents, and errors in assignments. If these persist for two weeks, burnout is likely the cause.
2. **Social:** Employee perceives a heavy workload with no time to finish work. Personal relationships decrease.
3. **Cerebral:** Employee is acting like a broken computer exhibiting strange patterns in writing and speech. Exhibits inattention and watches the clock.
4. **Emotional:** Withdrawal from friends and family. Person often escapes through drugs, alcohol, affairs, excessive spending, missed deadlines, and minimal productivity.
5. **Spiritual:** Person feels totally empty inside, seeks major change, career, spouse, home, often clinically depressed.



If you recognize any of these symptoms, what can you do to ban burnout in yourself or others? Start by lowering your stress level. You cannot eliminate all stress in your life; in fact, some stress may be positive. Positive stress is called motivation, excitement, and drive. However, when stress is constant and unrelieved, it can become negative and destructive. So stress must be balanced with relaxation.

According to a 1991 report by Northwestern National Life Insurance, these are some of the top ways managers can reduce burnout with their employees:

1. Encourage open exchange among employees.
2. Reduce conflict.
3. Empower, give employees control over their work.
4. Ensure adequate staffing, realistic budgets.
5. Keep employees informed.
6. Support employee efforts.
7. Provide personal leave and vacation benefits.
8. Maintain current levels of employee benefits.
9. Reduce busy work and red tape.
10. Recognize and reward employee contributions.

You can personally break the cycle by learning ways to relax and cherish yourself. Take time out for yourself in *some* way on a regular basis. Give yourself a chance to unwind and get ready for life's next challenge. Do whatever works for you. How about giving yourself minibreaks every hour to relieve stress, stretch, and get a cup of coffee? Take a half-hour bath every night, with candles, wine, and soft music. The key is to learn to pamper *you*! Learn what relaxes you — whether it's dancing, watching movies, walking, deep breathing, or reading trashy novels — and make time for it. Make an appointment with yourself on your calendar if you have to. You make time for everyone else in your life, and you are equally (and more) important. Controlling your time will help control your burnout.

Lastly, do the same old things to promote good health: eat well, exercise more, and get more sleep. Nothing has changed much in this area over the years. Unfortunately, many people look at these principles and believe they have to do them all at once. So they stress out and don't do anything! Embrace the idea that health is not an "all or none" proposition. Do something small like climbing the stairs instead of taking the elevator. Discover what works for you, and be focused about doing the few things that consistently reduce your stress level. Commit to it. Your productivity and your sense of accomplishment will increase, and you will ban burnout.

*Laura M. Stack, MBA, CSP, is "The Productivity PRO,™" helping people leave the office earlier, with less stress and more to show for it. She presents keynotes and seminars on time management, information overload, and personal productivity. Contact her at 303/471-7401 or visit her Web site at www.LauraStack.com.*

**Maintenance & Management Corner**

# Gas Heating Devices — for Safety Sake!

*By Rick Ebert, MPM®, 2002 Atlanta Convention Speaker*

According to the National Fire Prevention Association (NFPA) over 400 Americans die and almost 1,500 are hurt nationwide as a result of home heating fires. A third of these fatalities occurred between December to February making home heating deaths the number 1 cause of fire deaths during winter. The NFPA cites the primary reasons as (1) lack of regular chimney cleaning, (2) placement of flammable materials too close to space heaters, (3) design and installation flaws of heating systems, (4) fueling mistakes in liquid or gas fired devices, and (5) unattended space or portable heaters.

The astute property manager can readily see the solution to avoiding the risks. Inform your residents in your lease that fireplaces are “cosmetic only”, or make arrangements for annual chimney cleaning. Space heaters should be replaced with updated heating systems whenever possible. If this can’t be done, have the tenant read a well-worded document about the use and care of space heaters and portable heaters, and have the tenant sign off that they have read and received the instructions. No “do-it-yourself” heating allowed in your rentals by owners — no exceptions. In those areas where heating fuel must be purchased, make this a tenant responsibility. The tenant should know what is going into the fuel tank and in most instances, the tenant pays for the utility/fuel costs. In multifamily units where there may be an exception, be certain that you and the fuel provider are on the same page so that you get the right fuel for the heating appliance. Again, a good lease attachment about the use of space and portable heaters is in order. Also remember that over 2,000 deaths occur each year as a result of carbon monoxide poisoning. When a gas appliance, such as a heater, has a crisp blue flame without much yellow it is burning correctly. If you or your tenant suspect carbon monoxide, turn off the appliance, open a window or door, and call in professionals to remedy the problem pronto!

*Rick Ebert, MPM®, is a founding NARPM member and has been an instructor of the RMP® Maintenance Class for several years. He has authored over 100 hours of property management classes and is a frequent lecturer, instructor, and author.*

# What Is Mold?

*By Jack C. Schoppa, IFAS*

In the "good old days," when most of us thought of mold in our homes we thought of the gunk growing in that jar in the back of the refrigerator. Today we worry about mold growing in the walls, attic, or under the floor.

Recent news about household mold raises questions for homeowners and REALTORS® alike. Is mold dangerous to us or others? How do I know if I have mold? What happens if I do have mold? How will mold affect me or others? How will mold affect my home's value and for how long? How do I keep from getting mold? What are molds?

Molds are living fungi. These organisms produce spores that can be released into the air. It is estimated that there are over 100,000 different species of fungi worldwide.

There are five (5) major types of molds found in homes, they are:

- Cladosporium
- Penicillium (source of penicillin vaccine)
- Aspergillus
- Alternaria
- Stachybotrys chartarum (commonly referred to as "Black Mold")

Of these, the scariest is Stachybotrys chartarum. It is commonly referred to as "Black Mold" because it is commonly identified as black or dark. Stachybotrys does not have to be black. It can appear lighter in color, because it gets its color from its food source. Other molds, by the same token, can appear very dark in color depending on their food source and can be mistaken by appearance for Stachybotrys.

## Health concerns

While it is true that some molds are toxic, not all molds are. Toxicity varies among the molds and the effects on individuals also vary. For example, those allergic to penicillin vaccine are likely to experience allergic reactions to Penicillium mold. If you are not allergic to penicillin vaccine, then Penicillium mold may not significantly affect your health, particularly in small amounts. If you are allergic to any of the molds, or the toxins they produce, then more dense quantities of spores (indicating more mold) should affect you more significantly than environments with less dense quantities of spores (less mold).

The degree of allergic reaction to a specific mold varies among individuals. Stachybotrys chartarum spores produce poisonous mycotoxins. When these spores are inhaled and ingested by a human, they can cause unpleasant, and even very serious, symptoms and conditions.

The Web site for the Center for Disease Control and Prevention states that there is currently no test that proves a link between Stachybotrys chartarum and particular health symptoms. While mold is not proven to cause specific health problems the spores released by mold may contribute to illnesses or problems experienced by those with chronic respiratory diseases, allergies, asthma, immune suppression, and/or other illnesses as these people will likely be more susceptible to the mycotoxins in the spores released by the mold.

One Web site, Toxic-mold-tort-news-online.com, says Stachybotrys is thought to be responsible for a potentially fatal condition called acute idiopathic pulmonary hemorrhage. This has only occurred in infants and individuals with impaired immune systems. Other symptoms may include headaches, fevers, respiratory infections, diarrhea, burning or watery eyes, fatigue, and skin irritations.

## Mold Prevention

Since mold is a living organism, it requires three basics to remain alive and to grow. They are:

1. **Light** — mold must have light to grow. Not much, but some light is required, and enough light can exist to nurture mold behind walls.
2. **Food Source** — mold must feed on something (i.e., proteins found in building materials, such as the glue used to hold the paper onto the gypsum in drywall; wallpaper glue; carpet; etc.) Food sources for Stachybotrys chartarum are primarily materials that are high in cellulose and low in nitrogen content. Examples include wallpaper, cardboard, ceiling tile, cellulose insulation, and wood.
3. **Moisture** — mold must have moisture to grow. Moisture is considered the most controllable of the three conditions to grow mold. Omit the moisture, and you omit the mold. Mold cannot begin to grow without a source of moisture and existing mold cannot survive if the source for moisture is removed.

## Some common sources of moisture are

- leaking plumbing — supply or drain lines or a slow drip behind a sink, toilet, or in a wall;
- appliances and fixtures — damaged water heaters, refrigerators, dishwashers, clothes washing machines, faucets, sinks, tubs, showers, toilets, etc;
- moisture by condensation or steam — both central and window A/C units, boilers, etc.;
- structural problems — leaking roof, leaks around windows, improper drainage under pier and beam homes, and pooling in basements or under or around homes; and
- natural causes — flooding or poor drainage.

## Prevention of moisture methods (i.e., prevention of mold) are

- maintenance — plumbing system, appliances and fixtures, and structural;
- drainage — insure proper drainage and prevent pooling under or near home;
- ventilation — insure proper ventilation: in the home with windows and heating and air conditioning, under the home (for pier and beam construction) with ventilated crawl spaces and above the home (the attic) with vented soffits or other attic vents.

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# Certification Committee News

*The Certification Committee is pleased to announce the following new candidates. Good Luck!*

### RMP® Candidates:

Hyon Spencer, Trinity Realty, Hinesville, GA

Michael McVety, Realty Services, CRMC®, Fort Myers, FL

Patricia Sneed, C-21 Smith & Associates, Panama City, FL

JoDee Lucier, Prime Time Properties, Mesa, AZ

Michael McCreary, McCreary Realty Management, Marietta, GA

Arthur Kowitz, Arthur Kowitz Realty, Holly Hill, FL

### MPM® Candidates:

Darryl Kazen, 1st Choice Property Management, Keller, TX

Jim Smith, The Property Management Company, Austin, TX

Harry Van Mater, Professional Property Services, Ltd., Myersville, MD

### Candidate Checklists Updated

The Annual Convention in Atlanta proved to be very productive for our Certification Committee. In addition to the assistance that candidates can receive from Certification Mentors, changes have now been made to the Self-Managed Candidacy Checklists that should make them more beneficial during the candidacy period. Some of the Checklist items have been clarified, and examples have been included to help answer questions proposed by candidates during the last year. Motions were also approved by the Executive Board to allow candidates to count more activities toward designation elective points. Revised Checklists will be sent to all current candidates and have been posted to the NARPM Web site in the "Members Only" section.

### Certification Packet Deadlines

Since the Midyear Conference format has been changed to the Leadership Training Conference in January, designations will now only be presented at the Annual Convention. However, candidates are encouraged to continue sending in their packets upon completion! Designations that pass audit can still be approved at the Board meetings so that members can begin using their new designations prior to Convention. The next deadline for packets to be received at NARPM Headquarters is December 12.

### CRMC® – Fewer mysteries ahead

The Certification Committee and NARPM Headquarters are in the process of clarifying the requirements for the CRMC® designation so that the guidelines will be more publicly known and understood; this information will be published in an upcoming *Residential Resource* issue. We hope this will inspire more companies to pursue the prestigious CRMC® designation. There are currently four CRMC® candidates — good luck to you all! Hawaii will be a *great* place to mark such an accomplishment.

*Congratulations to our Newest RMP®s: (left to right) Linda Ochs, RMP®; Hugh Cross, RMP®; Renee Harvey, RMP®; Brenda Gerdes, RMP®; John Dovano, RMP®; Patricia Callahan, RMP®; Susan Albern, RMP®; Michael Nelson, RMP®.*

*Congratulations to our Newest MPM®s: (left to right) Harold Kalles, MPM®; Betty Fletcher, MPM®; Dusty Edwards, MPM®; Steve Crossland, MPM®; Jeanie Croes, MPM®.*

## NARPM 2003 Board Members

*Seated (left to right) Jim Smith, RMP®; Andrea Caldwell, MPM®; Rose Thomas, MPM®; Karen Hull, MPM®; and John Taylor, RMP®.*

*Standing (left to right) Robert Winger, MPM®, Bill Jackson, RMP®; Chris Hermanski, MPM®; Marcy Walsh, MPM®; Marc Banner, MPM®; Mike Mengden, MPM®; and Wendell Davis, MPM®.*

# Atlanta Convention Highlights

*By Andrea G. Caldwell, MPM®, Convention Chair*

As the Atlanta Swissôtel welcomed hundreds of residential property managers into its sumptuous confines, the 14th Annual National Convention convened on September 16, 2002.

The opening general session was a rollicking good time with Mark Kreditor, MPM®, who gave us a green graphic of what toxic mold could look and taste like, followed immediately with a very sobering expert panel on mold presented from three different perspectives. The latter session generated a lot of controversy and questions. Wednesday afternoon included committee meetings and the first breakout sessions. The trade show opened Wednesday evening with a flourish — a ribbon cutting by last year's Affiliate of the Year, Mike Anderson of HomeRentals.net and a cocktail party following where the attending members had the first opportunity to enjoy the excellent cuisine of the hotel.

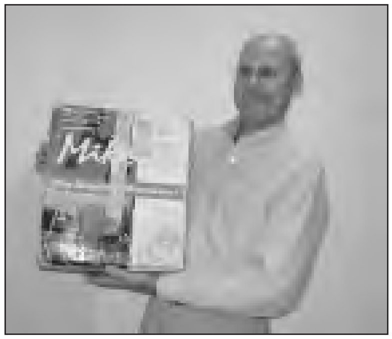
*(Left to right) Mike Mengden, MPM®, presents Sybil Carter and Clive Rainey with Habitat for Humanity International with over $1000 in cash.*

Thursday morning began early with a general session presented by Cynthiann King who seemed to be the management resource spectacular. If you had a question, she had a place to find the answer. We also welcomed our new ambassadors into the ever-growing club of members receiving free dues the following year. The second breakout sessions followed immediately thereafter until it was time to come together again for lunch. Members were assigned to specific tables, where a networking session hosted by Suzanne Reeder, MPM®, and Ray Scarabosio, MPM®, kept everyone talking, laughing, and sharing. The results of the session were then copied and made available at the registration desk. The Membership Awards followed including Chapter Excellence, Achievement, and the first ever Rocky Maxwell New Member Achievement, which went to a very deserving Rose Ann Duffy! The 50/50 raffle managed ably and well by Robert Winger and his committee generated excellent cash and gifts to the lucky recipients. The third breakout sessions followed lunch and upon adjournment, the conventioneers trekked to the Marta Station to be whisked to the Academy of Medicine for an hilarious evening rubbing elbows with Atlanta's history and being entertained by a troupe of truly outrageous characters, perfectly suited for spending the evening with NARPM members at their best!

The next morning, during a delicious breakfast, the Annual Meeting was gaveled open by President Mike Mengden, MPM®, with reports on the association's standing by various members of the board and our Executive Director Roy Bohrer. The membership elected a new board of directors and cheered on our Chapter of the Year and New Chapter of Year in an excellent presentation given by Membership Chair Marcy Walsh, MPM®. The fourth breakout sessions followed breakfast until the members returned again to the ballroom for community time with Habitat for Humanity. The group was graced with the presence of Sybil Carter (President Carter's sister-in-law) and Clive Rainey who gave a moving talk about the effects of the group's efforts in providing housing to the underprivileged. NARPM was proud to contribute to the cause by donating over ***$2,000***! Greg Fedro, RMP®, certification chair, then introduced our latest designees as they were all welcomed into the group by "running the gauntlet," a NARPM tradition for members reaching the highest levels of professionalism within our association. Congratulations to the new RMP®s and MPM®s (see photos on page 9). Subsequently, two members whose luck seemed incredible dominated the 50/50 raffle and then the cash went elsewhere to their dismay. The fifth breakout sessions followed. When all convened again to close the trade show, members and vendors alike agreed the trade show had been extremely successful. The new Affiliate of the Year, Mike McCall of PROMAS Landmaster, was announced and members adjourned to prepare for the festivities that evening. Later, as members began to arrive in their various modes of attire for the gala, it quickly became apparent that "New" could be translated in many different and interesting ways. The delicious dinner was served to all while our President Mike Mengden, MPM®, summarized his year — thanking and acknowledging many members who had assisted along the way. Incoming President Chris Hermanski, MPM®, gave the group a short talk about what we could expect in the next year. The evening ended late with the majority of the group stomping the floor demanding that the band keep playing.

The final day of the convention again dawned early but was quickly brought to life by general session speaker Dick Yarborough, who regaled us with tales of his management experiences while keeping us laughing and enjoying who we are. The sixth and final breakout sessions followed as members began commenting on the quality of the education presented throughout the convention. At the convention closing ceremony, Chair Andrea G. Caldwell, MPM®, thanked her able and extensive committee led by Karen Hull, MPM®, Melissa Prandi, MPM®, and Robert Winger, MPM®, with gifts of chocolate; awarded the *Resource* Convention Game winner, Betty Fletcher, MPM®; and introduced incoming Convention Chair Marc Banner, MPM®, who awarded the Hawaii registration. The convention was finalized with an invitation from Rose Thomas, MPM®, to attend the Leadership Conference in January in Austin, TX. See y'all there!

*Cynthiann King speaking at the General Session on Thursday.*



*Mike (Michael) Francis and Mike-Ro-Wave.*

*Mike Mengden, MPM®, (left) and Mike Anderson (right) present Mike McCall with the 2002 Affiliate of the Year Award.*


*Bev Banner from Professional Office Services of Idaho, showing her wares.*

*Mike Mengden, MPM®, presenting Mark Kreditor, MPM®, (or is it Goofy?) with the President's Award.*

*Congratulations to our Chapter of the Year — Orlando/Central Florida. (At podium) Phil Wilson, RMP®, (standing left to right) Harold Bell, Stephen Flewelling, Jeanie Croes, MPM®, Judy Wilson, Laura Wilson, Jill Boles, RMP®, Robert Meeks, and Marty Roberts, RMP®.*

*Michael McVety, Kristina Fogliana, Michael Mumford, and Theresa Reed, MPM®, at the New You in 2002 Gala on Friday night.*

*President Mike Mengden, MPM®, shows off his new boots — an outgoing president's gift from the NARPM board of directors.*

*Notice the crowd of NARPM members visiting with the exhibitors.*

*Fred Richter, MPM®, teaching a session to attentive Convention attendees.*

*Convention Chair Andrea Caldwell, MPM®, addressing the crowd.*

*Congratulations to our New Chapter of the Year — Bay County, FL. (left to right) Marcy Walsh, MPM®, Gary Kornegay, Patty Sneed, and Mike Mengden, MPM®.*

# Have You Been Tested? — Part II of II

*By Judy Cook*

*(Portions of text adapted from the "Tester's Manual" of Silver State Fair Housing Council, Reno, NV)*

In last month's article we explored the reasons Fair Housing "testing" is employed and has become a widely-accepted method of building evidence in discrimination cases. In this month's article, we'll discuss the testing process itself.

Testing is a controlled process designed to identify differences in treatment accorded to individuals who are similar in every significant respect, except the variable being tested. Testing is generally conducted for one of two specific purposes:

1. **Investigative Tests (Complaint-Based)** – To collect evidence in connection with a complaint filed by an aggrieved party.
2. **Survey Tests (Audits)** – To collect evidence in situations where there is no specific complaint or aggrieved party, but where information about sales, rental, lending, or appraising practices is desired.

Testers are not informed as to which type of test they are conducting, as both types require the same care and attention to accuracy and objectivity. Testers are trained to approach each test with an open mind, not assuming because they may be a member of a certain protected class, that is the protected class being tested.

A visit by the tester to the office of a sales office or property management firm is the most commonly-employed method of testing. Occasionally, testing is done over the telephone.

## Rental Testing

Tests at rental properties are usually the least complicated of the various testing situations. The tester is asked to inquire about the availability of a specific size or type of rental unit. Testers are encouraged to pay particular attention to

1. when a unit will be available;
2. whether there is a waiting list and how to get on it;
3. what the application procedure is;
4. the amount of the security deposit, rental rate, and other fees; and
5. what specific unit is available and where it is located.

## Role Playing

Testing involves acting. While testing a rental property, the tester is given a role to play and encouraged to be as natural in that role as possible. As often as possible, testers are assigned their own names and addresses. Variations generally occur in the age assigned, marital status, numbers of children, income, and employer. Some of the roles testers may be asked to play include

- an out-of-town upper management employee looking for temporary housing;
- an ADC recipient looking for inexpensive housing for herself and her family;
- a student looking for a unit to share with three other students;
- an older, well-to-do family looking for a quiet home that isn't too large;
- a wheelchair user looking for accessible accommodations; and
- a recovering drug addict or alcoholic looking for housing after leaving a treatment facility.

## Conducting the Test

Testers are trained in specific procedures to follow once at the property. They are told to arrive on time, stick to their assigned role, make notes during the visit, remember what information was volunteered by not only the tester but the property manager or agent being interviewed, and to avoid making any remarks about the racial/ethnic character of the neighborhood or community. When asked if they are a "tester," testers are trained to respond in a way that maintains their cover. Before leaving the test site, testers are encouraged to clarify with the agent when or how follow-up will occur. It is rare that a tester will be instructed to make a deposit or in any other way hold or secure a unit during a test.

## After the Test

After the site visit, testers are instructed to go to a nearby location to complete their Test Report Form. This is a multipage form designed to provide a detailed picture of exactly what transpired during the test. Questions on the form include

- information on the profile of the tester him/herself,
- details about the manager or representative interviewed,
- whether the HUD Fair Housing sign was conspicuously posted,
- the interview process itself (how long before interview took place, who was present, etc.),
- information about the rental property available,
- information about the application process,
- whether the housing provider was encouraging about the tester's application, and
- a narrative report on all events during the site visit.

The Fair Housing Agency utilizing the tester carefully reviews the Test Report, and interviews the tester to clarify any necessary information. Because this process is so thorough and objective, courts readily accept testers' testimony in discrimination cases.

## The Right of Testers to Sue

In 1982 the U.S. Supreme Court in *Havens v. Coleman* ruled:

> A tester who has been made the object of a misrepresentation made unlawful under [the Civil Rights Act of 1968, ed] has suffered injury in precisely the form the statute was intended to guard against, and therefore has standing to maintain a claim for damages under the Act's provisions. That the tester may have approached the real estate

*continued on page 15*

# A Landlord's Guide to Mold Eradication

*By Clifford A. Hockley*

It's a moderate day, 55 degrees, and you're about to tour your 20-unit apartment complex. You're relaxed and happy. The rent has been coming in on time. Your vacant units have filled fast. You feel like a true capitalist. It is a great day, that is, until you visit the first unit.

You knock on the door and the seven-year-old lets you in. Her mother is on the couch watching TV. The unit looks clean. As required, you have posted notice on all the doors in advance to let the tenants know you were coming. On this trip you brought your maintenance man, Jack, with you to fix the minor problems and make note of the major ones so you can budget future repairs.

You can smell dinner cooking. It smells like chicken soup and it smells good. As you walk out of the living room and into the bathroom you notice some mold on the walls. You quickly walk into the bedrooms and see even more mold, especially on the outside walls.

Your look puzzles Jack. He says, "we have this problem in all of the units."

The blood drains from your face. You quickly complete the inspections of all of the units and then walk out into the sunshine.

Your brain tells you that you must do something right away and that this cannot be healthy for tenants. Your maintenance man tells you that this is not an unusual problem, especially in the winter when it is colder outside and the humidity rate on the inside increases. He recommends installing a fan in the bathroom and making sure that the fans in the kitchens work.

You are shaken to the core. You decided to buy this building because it was built out of concrete. You figured WW III could come and your building would survive. You never expected mold to invade first.

Jack suggests the following: He recommends you check the roof first to make sure it is draining. Check the downspouts to make sure they are clear. Then he suggests checking if the humidity was caused by a broken water pipe. You doubt it because your water bill has been very stable. You decide to go home and do some research on the Internet.

You log on and find the State Health Officer in California, James Stratton, MD, MPH, says "there are hundreds of different kinds of mold and fungi that can grow indoors, and they come in different colors, including white, pink, orange, brown, and black. Almost all molds are known to produce substances or chemicals that emit a characteristic odor that can cause allergies or make them worse. Molds can also irritate the eyes, nose, or throat."

You find out from the EPA that molds lack chlorophyll and must survive by digesting plant and other organic materials for food, and that without molds, our environment would be overwhelmed by large volumes of dead plant matter. Molds produce spores and these spores float by us in the air. They tend to land in damp areas, and tend to destroy the things they land on.

The key to mold control is moisture control. High humidity, condensation problems, water leaks, maintenance problems, and HVAC system problems can cause mold to grow.

The various resources you check suggest how the problem of mold can be resolved.

1. Wash down the walls with bleach (one cup of bleach for every gallon of water) and then seal the wall and paint over it. Allow the bleach to stay in contact with the walls for 15 minutes before you wash it off. Make sure the area dries off; otherwise, mold will grow on it again. You also need to clean the carpets and drapes.
2. Make sure workers wear protective clothing (rubber gloves and long-sleeved shirts) and respirators.
3. If the problem is located on an outside wall, look to see if the gutters are plugged or rain or water is coming into the building. If that's the problem, the gutters and downspouts need to be cleared, and the walls still need to be washed and primed and painted.
4. Good airflow is critical to avoid mold. Retrofit fans and blowers into the kitchen and bathroom. This is not inexpensive, but since you have decided to make other upgrades in the property, you finance them all together.
5. Retrofit windows so they can be opened safely about two inches to let air circulate.
6. Communicate with tenants in writing regarding the steps they need to follow to reduce apartment humidity — and the steps you are taking to eliminate mold.
7. Engage experts and professionals as required.
8. Call your insurance company if the cost is going to exceed your deductible. Your policy may cover the clean up, however the insurance company may have specific vendors they will want you to use.

After a lot of work, you feel good. You've made progress, the mold is gone, the tenants are happy, turnover has been reduced to nothing, and the tenants you have are with you to stay. Everyone benefits.

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## *Contribute to the Residential Resource*

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|---|---|
| February, 2003 | December 15, 2002 |
| March, 2003 | January 15, 2003 |
| April, 2003 | February 15, 2003 |

*If you are interested in writing an article, please e-mail an attachment of your article in Word or text format to Jessica Jacobs jjacobs@assnmgmt.com or send her a Word or text file on 3 1/2" diskette to P.O. Box 140647, Austin, TX 78714-0647. All articles are subject to editing and approval of subject matter.*

# Using Trusts to Own Real Estate

*By Dyches Boddiford and George Yeiter, CPA*

Trusts have been used as an entity to hold assets, such as real estate, for hundreds, if not thousands, of years. Obviously, it's old stuff. But, with each generation's trials and tribulations, trusts evolve to meet new challenges.

High taxes and aggressive litigation are today's motivators. Tax risks range from income tax to draconian death taxes that consume up to 55% of the assets a person leaves behind. Trusts are often used along with more modern adaptations of other old entities, such as partnership aberrations, to include family limited partnerships and limited liability companies. The quest is to keep what you have accumulated and to have some extended control of it, even after death.

A perfect example of using ingenuity to keep one's assets away from the grips of the tax man was a trust established by Maria Cristofani in 1984. Maria established a trust and transferred to it real estate with a value of $70,000. The primary beneficiaries were her two children and, as contingent beneficiaries, 5 grandchildren should the two primary beneficiaries die within 120 days of Maria. All was fine until Maria died, and the IRS audited her estate tax return.

Naturally, the IRS wanted more money. They claimed that Maria failed to file a gift tax return and owed back gift taxes. The IRS argued that Maria was entitled to give $10,000 per year to the two primary beneficiaries, but that taxes were owed on the $50,000 not excluded. The estate disagreed, claiming that the 5 contingent beneficiaries did have an interest in the trust. The trust had a Crummey power and, in accordance with that power, the trustee had given written notice to all 7 beneficiaries of their right to withdraw. Thus, the full $70,000 was excludable.

This means that multiple-beneficiary trusts now can be used to expand the fit-tax exclusion. It took someone with a tolerance for risk to mix old law and an old trust entity with a new way of looking at the old to save Maria's family substantial wealth.

Over the years trusts have been used extensively in the attempt to control how much the government inherits. Some of the more familiar trust names include Bypass Trust, Marital Deduction Trust, Generation Skipping Trust, Grantor Retained Income Trust, Insurance Trust, and so on. The common thread for all of these trusts is to legally avoid paying the majority of the deceased's wealth to the government. Failure to act is to assure that the estate will pay the highest possible tax.

## A Need for Privacy

Real estate investors often use trusts as business devices. It is hard for persons who have not been in business to understand, but business can be war. There is an ever growing number of enemy soldiers attempting to invade and plunder the investor's castle of wealth. Sometimes this is accomplished by out and out illegal means, such as thieves that rob and destroy property or those who embezzle by not paying rent. The cruelest enemy is he who uses the law to plunder. Today, lawsuits are treated as a lottery. Enemy troops look for excuses to sue; it is nearly a guaranteed profit. If a person can find some excuse to sue, even if very flimsy, the defendant will almost always settle for at least a few thousand dollars because it is cheaper to settle than to incur the cost of legal defense. It has become so bad that in some cities, such as Buffalo, NY, unscrupulous people publish lists of landlords and divulge such things as the number of properties, the number of units, and the total value of real estate owned. Why? Because contingency fee lawyers will not spend the time and money to go after someone with minimum assets. They look for the "fatted lamb."

## Land Trusts

A result of this attack is a defense system. Trusts are used by some investors as a key part of their defense. The most common trust used in real estate investing is referred to as an Illinois style land trust. The primary purpose is to remove the legal title from the investor's name. The title is held in the name of a trustee and the investor is both the grantor and the beneficiary to the trust. the trust does not offer the same kinds of protection a corporation or limited liability company can, but it has a place in the castle's defense and is the most economical of all entities to set up and maintain.

Legal advisors often recommend trusts be used in conjunction with other business entities assuming the amount of wealth involved is sufficient to justify the cost of the business entity. Trusts, on the other hand, are usually very economical. An attorney prepares the original trust and it can be duplicated for additional use. The fee to have a knowledgeable attorney prepare a land trust can range from $300 to $1,000. Some of us do our own trusts, but a great deal of knowledge must be obtained before you consider doing this. There are no additional expenses, such as franchise fees or income tax returns. A land trust is reported on the beneficiary's tax return as if the beneficiary personally owned the property.

## Other Trusts

There are numerous possibilities for the name given to a trust. Such names are often chosen to reflect the primary function of the trust: Education Trust, Wealth Replacement Trust, Charitable Remainder Trust, Spendthrift Dynasty Trust, and so on.

Since names are assigned to trusts, the public can get the wrong impression. It is often assumed that a named trust is like any other consumer good, such as the name 'car' or 'truck'. A person wants to buy, say, a car but not a truck. They want a Spendthrift, but not an Education Trust. Actually all trusts are just trusts. The primary thing that differentiates them are clauses written into the trusts. For example, a single clause will turn an Education Trust into a Spendthrift Education Trust.

The point is not to let names become confusing. The fundamentals of trusts are simple to comprehend. First, all trusts are either inter vivos or Testamentary. Inter vivos trusts are set up while the grantor is alive and are often referred to as 'living trusts.' The testamentary trust, on the other hand, is set up after the person's death by authority written in the deceased's will. All trusts will be either an inter vivos or a testamentary trust.

## Revocable and Irrevocable Trusts

Inter vivos trusts are either revocable or irrevocable. Revocable means the grantor can either revoke the trust or else maintain some significant power to maintain control of the trustee or use of the trust assets. Irrevocable means the grantor totally gives up rights and powers and walks away entrusting to the trustee all of the assets in the trust, referred to as the 'corpus.'

The government treats most inter vivos revocable trusts as grantor trusts. As previously mentioned, grantor trusts are reported on the grantor's tax return. Irrevocable trusts have more complex tax returns. In a nutshell, they are either a simple trust or a complex trust for tax reporting purposes. These returns are best prepared by professionals.

Most investors will be dealing with inter vivos or living trusts. Trusts used to hold operational real estate will generally be revocable, grantor trusts. These trusts are more for operational purposes than estate tax planning purposes. In general irrevocable trusts will be used to deal with estate tax planning.

Depending on the client's objective, the attorney will draft a base trust to emphasize certain objectives, such as children's education, or a land trust. Examples would be an education trust that is an irrevocable inter vivos trust and the land trust that is a revocable inter vivos trust.

## Common Characteristics

Some common characteristics of the living trust are as follows:

**Assignment** — In certain cases trusts can be assigned to third parties without changing the public records. Though we do not recommend it, some real estate investors have used this feature in dealing with due on sale clauses of mortgage contracts.

**Assurance** — The trust may provide greater assurance that the grantor's wishes will be met. Wills are more easily contested by disgruntled heirs and "want-to-be" heirs.

**Avoids Guardianship of the Assets** — Using a Trust the grantor/beneficiary has greater assurance that his assets will be managed in a manner prescribed by him and will be spent as he instructs in the trust document. If a trust does not exist and a guardian is appointed by the courts, then the courts and guardian make these decisions with no input from the incapacitated party. A guardianship is more expensive to administer than a trust since the court usually requires a periodic accounting by the guardian.

**Incapacitation of Trustee** — If the owner of the property becomes incapacitated, managing assets can become a problem. A trust allows for an alternate trustee to step into the shoes of an incapacitated trustee without affecting management of the property.

**Limited Liability** — There is no significant liability protection. At best, the trust provides greater privacy as to who is the beneficiary. In most states living trusts are treated as the alter ego of the grantor. As such, liability may be attributed to the grantor.

**Privacy at Death** — Ownership transferred upon the death of the grantor/beneficiary of a trust is private when contingent beneficiaries are listed. Unlike a will, which is probated, a trust document does not become public record. Land trusts typically do not have contingent beneficiaries and, therefore, any property held in the trust would simply be included in the deceased's probated estate.

**Privacy While Living** — Some real estate investors wisely seek privacy regarding the ownership of their real estate. They do not want their name as the owner of the public property records which would allow anyone to know how much wealth they owned in real estate and where that real estate is located. It can also cause a serious operational problem. For example, a judgment against the investor even for a small amount would give the judgment holder immense leverage diminishing the investor's opportunity to negotiate a lower settlement on the judgment. The judgment attaches to all of the investor's real estate. This would prohibit the investor from selling any real estate without first paying the judgment in full.

**Probate** — Where a trust has contingent beneficiaries listed, costs associated with probate are avoided since the trust is not probated at death.

**Taxes (Income)** — There is no tax benefit. The tax information is reported on the grantor's personal tax return.

**Taxes (Estate)** — The Irrevocable Trust, Insurance Trust, Bypass Trust, and Marital Deduction Trust are the most common trusts used to save estate taxes. Note that an Irrevocable Trust is a book trust and can be used for many purposes, such as the trust names indicate, Charitable Remainder Trust and Spendthrift Dynasty Trust. The revocable land trust saves no estate taxes.

*Dyches Boddiford is a full-time real estate investor and national speaker. He began purchasing real estate in 1980 while working in corporate America. In 1986 he formed The Oaks Group, Inc., to handle real estate related activities and since 1991 has devoted his time to making this company grow. He speaks from experience in owning apartments, single-family homes, mobile homes, buying discount mortgages, making mortgage loans, including using land trusts and land contracts. He is also a past president of Georgia Real Estate Investors Association.*

*Dyches has written books and teaches seminars on financial freedom, asset protection, the corporate fortress, the Nevada corporation, limited liability companies & partnerships, real estate investment using self-directed IRAs, advanced strategies, business tax strategies, estate planning with asset protection, guerrilla bankruptcy tactics for creditors, the mobile home money machine, deals in dirt, discount notes and mortgages, private money lending, as well as other topics. His Web site is http://www.dboddiford.com.*

## Fair Housing

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> agency fully expecting that he would receive false information, and without any interest in buying or renting a home, does not negate the simple fact of injury within the meaning of (the law, ed)."

Since that decision, a number of lawsuits have been filed with testers named as plaintiffs. In some of those cases, testers have recovered monetary awards or settlements. Any tester whose activity comes under the coverage of the above U.S. Supreme Court decision has the right to file suit against the agent/owner involved in the test.

*NARPM Members, if you would like to submit questions or comments for discussion in an upcoming column of "Fair Housing Corner," please send your suggestions to judy@cookcompany.net. DISCLAIMER: Judy Cook is not an attorney, but a speaker and trainer in property management issues. This article is written from that perspective and is not to be construed as legal advice.*

# Income Property — Part IV

*By Chet Boddy*

## Rates and Ratios

If you've ever dabbled with income-producing real estate, you've probably heard some jargon and buzz words like yield rates, cap rates, and gross rent multipliers. What do these mean and how do people come up with these numbers?

These are rates and ratios that can be useful in evaluating income property. But, like all statistics, they can be confusing and misleading if based on faulty information or used in the wrong way.

Stock market investors use similar indicators, such as the price-to-earnings or P/E ratio. Analysts can determine if a particular stock is over-valued or under-valued based on their knowledge of standard and historic P/E ratios. However, some companies use creative accounting methods to report their earnings, making the P/E ratio less meaningful. Savvy stock market investors know they need to consider a variety of things, such as growth potential and risk, and the time value of money. Real estate investing is no different.

## Yield Rates

A yield rate is the rate of return on capital. There are all kinds of yield rates, but the one most of us know best is the interest rate. Interest rates, like all yield rates, are usually expressed as a compound annual percentage rate. Mortgage interest is usually compounded monthly, while the interest on a standard savings account may be compounded daily.

Other types of yield rates are the discount rate, the internal rate of return (IRR), the overall yield rate, and the equity yield rate. In fact, there are dozens of yield rates used in analyzing commercial real estate. But they all express the same thing — some rate of return on money.

## The Gross Rent Multiplier

The gross rent multiplier (GRM) can be useful in estimating value because it requires only the most basic knowledge about a sale — the sale price and the annual income. The GRM is a ratio rather than a yield rate, and is simply the sale price divided by the potential gross income (PGI). Technically speaking, PGI is the anticipated next year's rent. However, in most cases the current or asking rent can be used.

The standard rule of thumb for gross rent multipliers is somewhere around 10. This means that the market value of an income-producing property should be roughly 10 times its gross annual income. Lower GRMs are found where buyers pay lower prices and/or expect higher rents. Higher GRMs are found where buyers pay higher prices and/or accept lower rents because they expect property values to rise.

On the Mendocino Coast, for example, GRMs tend to be below 10 in Fort Bragg (a regular working class town) and above 10 in the village of Mendocino (a tourist-oriented town with historic buildings and design control).

Gross rent multipliers can also be based on effective gross income (EGI), which is PGI minus vacancy and collection losses. However, it's often difficult to find this kind of detailed information about real estate sales. It's important that the GRM be based on consistent information for each property. You can't mix potential and effective income and come up with a reliable multiplier.

Recent sales of similar income properties should produce similar gross rent multipliers. If the GRMs are not similar, the data may be faulty or the properties may not be truly comparable. They could be located in different neighborhoods or they could be different in age, quality, condition, and functional utility.

Some types of properties, such as vacation rentals and single-family dwellings, produce income but don't generate reliable GRMs. That's because their rental income is secondary to their use as private residences. Also, these types of properties often have excess land, or more land than is needed to support the income-producing use. Mixed-use properties, such as homes with rental units, usually don't produce reliable gross rent multipliers either.

## Rent Surveys

The most reliable way to estimate income is to determine market rent, which is the most probable rent the property would bring based on an analysis of comparable rental space. This involves conducting a rent survey. Ideally, current rental and vacancy information should be available from the local Chamber of Commerce or Board of REALTORS®. However, in small towns and rural areas it usually isn't.

A rent survey is a time-consuming process that involves interviewing landlords and tenants and measuring rentable square footage. Rents, vacancy rates, and square footage are constantly changing, so rent surveys have to be constantly updated.

## The Cap Rate

The overall income capitalization rate, or cap rate, is another useful ratio for estimating real estate value. The term cap rate is misleading, because it implies that this is some kind of yield rate, like a mortgage interest rate. The cap rate is just a plain old ratio like a gross rent multiplier, but is derived from more precise information. The cap rate is the net operating income (NOI) divided by the sale price.

Capitalization is a fancy word for the process of converting future benefits to a present value. The main benefits from income property are rent and the future sale of the real estate (called the reversion). These require time, management, and some element of risk to obtain.

Cap rates can be developed by analyzing the income and sale prices of comparable properties. Cap rates are generally more precise than gross rent multipliers because they are derived from net rather than gross income. Cap rates are more sensitive to such things as vacancy rates and operating expenses. Because older buildings tend to have higher operating expenses, cap rents also reflect the age, quality, and condition of the improvements.

The main problem with using cap rates is the difficulty in collecting consistent, detailed real estate information. Different owners

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# The Little ANTagonizers

*By Linda Hargis*

I am sure you have heard it a hundred times. “There are millions of them everywhere, I think they are after my children.” Or, “I cannot even eat in my kitchen anymore.” I have even heard many tenants saying the dreaded, “I am going to move out if they are not gone right away.” What is this ANTagonizer, this unwelcome intruder? It is the dreaded soil ant, or as some call it, the sugar ant. There are between 75,000 and 100,000 ants per nest and they are making new nests in homes and apartments as you read this article.

- Where do they come from?
- How can you keep them from coming?
- Why does it seem like they get worse when we try to spray for them?
- Are they stoppable?

First of the soil ants — the small ants — come from the ground under the residence. In the spring and summer, they come up looking for moisture and food for their nests. Because soil ants move their nests every two weeks during this time of year, they are always moving closer and closer to a food and moisture source. Therefore, when they find moisture and food in a home, that is where they will move their nest. Usually they will nest right behind the baseboards in the kitchen and bathroom.

You can help keep them from coming into the home with cleanliness. Keep kitchens and dining rooms free of crumbs, and wipe counters with ammonia to kill odors that foods leave. Although that helps, the main reason they come is moisture. In light of this it is imperative that there is no standing water in crawl spaces, leaking plumbing, or faucets. Any dampness at all can be a conduit for a soil ant nest. If you live in an area where there are a lot of soil ant nests in the ground, these preventive measures may help, but the only way to keep them from coming or get rid of a nest is consistent service whittling away at their nests.

Even today, I was in line at the grocery store when the checker asked me “Why is it that when I spray for the ants they get worse?” Unfortunately, that is an all too common question and a very real problem. Earlier, I mentioned that the soil ants move their nests every two weeks. When soil ants are disturbed they will actually move around even more, thereby spreading and creating an even worse problem. There is even one type of soil ant that will create new queens, which splits the nest, so where you had one nest that was up to 100,000 ants, you can have 3 different nests each holding another 100,000 ants in no time at all, and 300,000 ants creates a big problem. The key is a process that last long enough to not just disturb them but actually kill off the ants. Most products you buy at the local stores will just disturb them or kill a small percentage. The good news however, is that they can be stopped. Through customized professional programs on a consistent basis, you can control the soil ants and bring an end to the ANTagonizers, thereby bringing relief and peace to homeowners and tenants.

*Linda Hargis, is a 15-year state licensed pest control operator, and co-owner of Proven Ecological Pest Control. Article re-printed with permission from the* On-site *Northwest newspaper.*

# Welcome New NARPM Members

The following is a list of new members who joined NARPM from August 1 to September 30, 2002.

Tarie Beck
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406/585-7776

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## Affiliate Staff

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510/562-1333

Jean Storms
LandlordSource.com
1956 Andover Lane
Lincoln, CA 95648
916/408-4400

Nicole Vila
Allen's All-Stars
2200 S Dixie Highway, Ste. 701
Miami, FL 33133
305/285-9108

# 2002 RMP®/MPM® Certification Classes

| Date | Location | Class | Instructor |
|---|---|---|---|
| January 15-16 | Austin, TX | MPM® Owner/Client Relations | Wallace Gibson, MPM® |
| January 16 | Austin, TX | RMP® Habitability Standards & Maintenance | Rick Ebert, MPM® |
| February 20 | Longmont, CO | RMP® Tenancy | TBD |
| February 19-20 | Longmont, CO | MPM® Personnel Practices & Employee Relations | TBD |
| May 20-21 | St. Augustine, FL | MPM® Owner/ Client Relations | Wallace Gibson, MPM® |
| May 21 | St. Augustine, FL | RMP® Office Automation | Jean Storms, MPM® |

**To register for classes, complete the registration form and mail or fax with payment to NARPM Headquarters. For more information call Headquarters at 800/782-3452.**

## Interested in Sponsoring Certification Classes?

Opportunities are available to chapters that would like to further member education, promote certification, and increase their chapter funds by sponsoring a Certification class. However, it takes time to plan a class — so give your chapter five to six months lead time if you wish to sponsor one of these events.

Please find out more by calling Marc Banner, MPM®, at 208/377-8889 or e-mailing him at mbanner@fiberpipe.net. Marc can provide you with the details you need to make a Certification class a successful venture.

## RMP®/MPM® Class Registration

**FEES**

| **RMP® Classes** | Preregistration* | On-site† |
|---|---|---|
| Member | $195 | $225 |
| Nonmember | $250 | $280 |

| **MPM® Classes** | Preregistration* | On-site† |
|---|---|---|
| Member | $395 | $450 |
| Nonmember | $450 | $505 |

** To receive the preregistration price payment must be postmarked, faxed, or e-mailed 30 days prior to the class.*

*† Attendees must pay the on-site fee when registering on-site or sending payment in less than 30 days prior to the class.*

**CLASS INFORMATION**

- On-site registration begins at 8:00 am. Class hours are 8:30 am to 4:00 pm.
- RMP® classes qualify for 6 hours of NARPM certification.
- MPM® classes qualify for 12 hours of NARPM certification.
- All materials will be given to students on the day of the class.
- All attendees are required to make their individual hotel reservations.

**CANCELLATION POLICY**

Cancellations must be received in writing. If cancellation notice is receive at least 30 days prior to the class, a full refund will be issued less a $25 processing fee. If cancellation notice is received less than 30 days before the class, a 50% refund will be issued. No refunds will be made on the day of class; however, the registration fee can be applied to a later class with a $25 transfer fee.

Due to low registration, a class may be cancelled with 15 days prior notice. Registration fee would be credited to a future class.

(Please print or type)

Name ____________________

Company ____________________

Address ____________________

City/State/Zip ____________________

Telephone ____________________ Fax ____________________

**List Classes**

| Name of class | Class Date | Cost |
|---|---|---|
| ____________ | ____________ | $ ________ |
| ____________ | ____________ | $ ________ |
| ____________ | ____________ | $ ________ |
| | Total | $ ________ |

**Method of Payment**

☐ I have enclosed a check for $__________ Ck/M.O. #____________ Date_______________

☐ Please charge my credit card in the amount of $__________ as follows:

☐ VISA ☐ MasterCard ☐ Discover ☐ American Express

Card Number ____________________ Exp. Date___________

Name of Cardholder ____________________

Billing Address ____________________

Signature ____________________

I authorize NARPM to charge my credit card. I understand that my billing statement will read "NARPM."

**Two Easy Ways to Register**

**1. MAIL** your form with payment to NARPM, P.O. Box 140647, Austin, TX 78714-0647.

**2. FAX** your form with credit card payment to 512/454-3036. Please do not mail the original.

NARPM
P.O. Box 140647
Austin, TX 78714-0647



## Income Property

*continued from page 16*

report expenses in different ways. For example, an owner who also manages the property may not include management fees as an operating expense. Also, many owners don't include reserves for replacement as a standard expense item.

Putting together accurate income and expense records is a lot of work. Some buyers and sellers consider this information to be confidential. However, because it requires some effort to assemble this information, it is often incomplete, inaccurate, and not fully disclosed as part of the sales transaction.

But sooner or later lenders and informed buyers are going to ask about cap rates. Being able to provide an accurate cap rate could make the difference between getting or not getting a loan, or making or losing an important real estate deal. Therefore, it's important to extract this information whenever possible.

The standard rule of thumb for cap rates is something less than ten (10) percent. Higher cap rates are found where buyers pay less and/or expect more rent. Lower cap rates are found where buyers pay more and/or accept less rent because they expect the value to increase during the holding period.

Some companies publish standard cap rates for various types of properties in different parts of the country. However, the best information is always derived from the local real estate market.

### The Relationship Between Yield Rates and Cap Rates

Yield rates and cap rates are related, even though they are two different things. A yield rate is a rate of return on capital, like an interest rate. A cap rate is just a ratio (income divided by sale price). When a buyer expects income and property values to remain unchanged during the holding period (the time the buyer expects to own the property), the cap rate is equal to the yield rate. This is called capitalization in perpetuity.

When a buyer expects income and/or property values to rise, the cap rate is lower than the yield rate. In other words, buyers more for the property because they anticipate increased future income.

### Discounted Cash Flow Analysis

There is another more sophisticated way to analyze income property that has become more common with the widespread use of computerized spreadsheets. This is called discounted cash flow analysis, or DCF. The process is also called yield capitalization. It's complicated because it projects income and expenses for a number of years, ending with the sale of the property.

DCF can be useful for analyzing large, complex properties with multiple income streams. By plugging in different numbers, investors can test their assumptions and decide whether or not to buy the property and how much to pay.

DCF spreadsheets are also used to analyze land subdivision and development projects. Although these spreadsheets are impressive, the results can be speculative and misleading. Discounted cash flow analysis may be more useful as an analytical tool than as a way to estimate value.

Discounted cash flow analysis is different than direct capitalization — a simple process that projects only one year of stabilized income and expenses. For the vast majority of income properties, direct capitalization simulates the process used by buyers and sellers to arrive at a sale price.

 *Chet Boddy is a certified general real estate appraiser and real estate consultant who has lived on the Mendocino Coast since 1976. Look for this and other real estate columns on Chet's Web site at www.chetboddy.com.*