

A Little Knowledge is Dangerous – Test Your Resident Managers! Part I **by Marvin Fleschman, CAPS**

About half of all rentals in the United States are considered small properties, defined as less than 100 units. California has the highest number of rental units owned by individual investors. Many are owned by “arms length” investors, people who made their money in some other field and decided that apartments would be a good investment. The maintenance of the building is done by workmen they hire, like plumbers, electricians and handymen. The day-to-day management is left to the resident manager whose duties usually involve tenant relations, maintenance requests, rent collection, showing vacancies and screening applicants. The second category of owner is the “mama/papa” owner/operator, investors who live on the property and do most of the managing and maintenance themselves.

The majority of “arms length” investors and “mama/papa” owners have no formal education or training in all the fields of knowledge necessary to operate such a business. Their methods of doing business are simply the result of information that has trickled down to them from accountants, media stories and “the school of hard knocks.” Many times the resident manager is simply a long-time tenant whose status as “retired” or “housewife/mother” allows them to be around the building a lot.

Whether the person in charge of the building is the owner or the resident manager, the value of the entire investment (including the personal worth of the owner), is on the shoulders of the individual facing the day-to-day operations of the building. Operations such as:

- Landlord/Tenant Law
- Resident Relations
- Marketing, advertising and showing vacancies
- Applicant screening
- Record keeping
- Bookkeeping
- Fair Housing and Discrimination Laws
- Workers Compensation laws and employee labor law
- Maintenance diagnosis and repair
- Vendor selection and supervision
- Eviction procedure and prep for court
- Small Claims lawsuits and prep for court
- Drugs, gangs, graffiti

Every one of these subjects puts the landlord’s interests at stake if handled improperly. A maintenance or marketing decision can waste money or lose a good tenant. Lack of legal knowledge can end up in a lawsuit. The unschooled owner or manager is constantly exposing the investment to financial losses and lawsuits.

As you read the above list, do you feel confident that you have a firm grasp of each subject? I have spoken to long-time owners who feel it’s a personal blow to the ego to admit lack of knowledge. Baloney! If you are in the business and take it seriously, you can’t let superficial pride and ego interfere with doing what’s necessary to protect your investment and create more profit.

Now, re-read the list above and take a moment to focus on each subject. Hey – I said re-read that list! Don’t you dare read any further until you do it! Do you understand the importance of each field of knowledge, or are you saying “I don’t know much about it, but I’m okay. What I do know has gotten me along without problems until now.”

Owners and managers have gone along for years without in-depth knowledge of the above subjects. They have been lulled into a state of apathy. Nothing bad has happened to them in the past, therefore, why worry about anything bad happening to them in the future?

A cautious driver can probably go through thousands of miles of driving without an accident but, would anybody in their right mind who has property to lose drive without insurance protection? Yet, property owners have hundreds of thousands of dollars at stake every time their resident manager opens his mouth, washes the stairs or enters an apartment.

The role of the resident manager is so sensitive and critical that there have been efforts by LA City in the past to require licensing of all resident managers. Of course, licensing would then give control to the City to set levels of competency and to require education and testing to enforce their resident manager standards. If this movement were to succeed:

1. It would create more government involvement with our business
2. Inspection of our resident managers added to the property inspections we already have to endure and
3. Let's not forget, MORE FEES to pay for the new licensing and enforcement bureaucracy it would create.

I think it's safe to assume we all agree we don't need this additional monkey on the backs of property owners and managers. However, just because I'm against the knowledge and competency it would require. I just don't want to see the government get another foothold into our business. We must be concerned about any lack of knowledge our managers have for our own security not because it's forced upon us by a government over-seer.

I'm sorry to say, I believe **three-fourths of the resident managers are a lawsuit waiting to happen**. As well-meaning, conscientious and honest as they might be, their knowledge is limited to what an owner has instructed them to do. The knowledge that most owners have has usually only been gained from their own limited experiences and contact with other owners and managers. Do we really want to trust our life-savings to such accidental knowledge? The results of your manager's lack of knowledge can lose your building for you.

Continuing education is important to every professional in the field you can think of. What has the last ten years of changes and advances shown in the fields of medicine? Law? Accounting? Electronics? Even your handyman should use tools and materials that reflect today's technology. Let this article produce an aroma of coffee for you to smell. If your knowledge is limited on some of these subjects, you must wake up and realize how much is out there that you should know about this business. I suggest the best place to begin is to contact AOA to see what seminars and classes they have planned. If they aren't offering classes on subjects you want, speak to their education director – they will appreciate your input and it will help them prepare their schedule of classes.

Test Your Knowledge – Part I

[Editor's Note: It is suggested that you take this test and then give it to your resident manager to test their knowledge as well. Even if one new bit of information is passed on, it will have done its job.]

1. A tenant told me that I should be paying him interest on his security deposit since I am earning interest. Is this true?
2. I require that applications be filled out:
 - A. Only by the person paying the rent
 - B. Both, if unmarried roommates
 - C. None for children of the couple

3. I charge an application fee of \$32.50 for each adult if single or \$10 more if a married couple. Is this okay?
4. I keep my apartment keys on a board stored in a locked closet. Is this okay?
5. I have had a great tenant for 15 years. He doesn't bother me, I don't bother him. Is this okay?
6. A tenant denied me entrance citing "invasion of privacy" if not an emergency or requested by her. I gave her 24 hours notice that I am entering for an inspection anyway. Is this okay?
7. Is it okay to require that applicants write down their driver's license number?
8. Is it okay to give my resident manager free rent or \$200 off the rent?
9. I have a tenant/manager who does minimal work around the property; therefore I don't need worker's comp because I have a handyman do all the work. The manager doesn't do anything dangerous.
10. Roommates are breaking up and one is staying. The one leaving wants his half of the security deposit refunded. What do I do?
11. A female tenant gets beaten by her husband and now wants the locks changed because she threw him out and doesn't want him back in her apartment. I won't change the locks because he is still a tenant in good standing, pays the rent regularly and has not told me he is vacating. Is this okay?
12. When kids graffiti my building, can I call a local community removal program to remove it?
13. I have a tenant who has lived in the apartment for five years. He wants it painted and says he will paint it if I supply the paint. Is this a good deal?
14. New immigrants from Armenia want to know if we have many Armenians on the property since they didn't speak English that well and would be comfortable around their own people. I was glad to impress them that a third of our tenants our Armenian. Is this okay?
15. My tenant says he can't pay the rent until the 8th of the month. Since I define late fee in my rental agreement as beginning on the 5th day, I can't serve him a 3-Day Notice to Pay or Move Out until the 6th day which means I can't start an eviction until the 9th, right?
16. I have decided not to rent to smokers (damage to apartment and health of neighbors), gang members (a threat to property and tenants), people with SUV's and Hummers, (too large for the parking spaces) or motorcycles, (too loud). Are these okay?
17. A new or existing tenant is now disabled and wants a closer parking space. Is it okay to have them wait until I have a vacancy and then switch her place?
18. Can I reject applications from foreign applicants unless they have a social security number so I can run a credit check?

Answers:

1. Security deposit interest applies to LA City Rent controlled properties only. You must give a 1099 (federal, no state) for over \$10 of interest paid.
2. Applications should be filled out by ALL ADULTS to live in the apartment.
3. The application fee can be a maximum of \$32.50 per person to cover actual expenses. The balance of the fee should be returned to the applicant.
4. You should keep all keys and applications in a safe.
5. A semi-annual inspection program will protect the property and help you keep an eye on possible tenant mistreatment of the property.
6. The landlord has the right to periodically inspect the property for smoke detectors, plumbing, electrical, etc., after giving the tenant 24 hours notice.
7. Yes. Ask to see the driver's license to make sure the number was written down correctly and **really look** at the picture to make sure the face belongs to the applicant.
- 8/9. A resident manager is an employee. All compensation must be legal and documented. Things to be aware of are wages/hours, maximum rent, worker's comp, a manager contract, disclosure of employee rights; state labor board, OSHA, forms and posters, a written list of duties and a weekly time card.

10. Tenants are responsible for the rent “jointly and severally.” Therefore, your refund goes to ALL names on the contract. Start a fresh lease and security deposit with the remaining roommate and any new roommate.
11. She can change the locks at her expense and give you the new key. If he comes to be let in, you should refer him to her for the new key.
12. Anti-graffiti programs only work if it is removed before the culprits can return to enjoy their work. Therefore, you want it to “disappear” fast to frustrate the vandals. Statistics show that within three attempts, they’ll stop wasting their time defacing their property.
13. You could get a sloppy, unprofessional paint job, not cleaned or patched properly, enamel not sanded for prep, flat paint on molding, carpet and ceiling. Also, the tenant is now working for you – who pays the “medical bills if he gets hurt?”
14. **ANY discussions that refer to the “protected classes” are illegal** in real estate. Positive, helpful or complimentary discussions about them are considered “reverse discrimination”.
15. Late fees mix people up. The rent is DUE on the first and LATE on the second. If you accept the rent late consistently, you risk setting a precedent that the DUE date is now moved to the latter date.
16. You can refuse to rent to smokers. You cannot refuse to rent to gang members as it’s considered “arbitrary discrimination” unless you find that this individual has a history of mistreating property and tenants. You can refuse to rent to people with SUV’s and Hummers because they are too big for the parking space and you can also refuse motorcycles because they are too loud.
17. The landlord must exchange the closest space with a non-disabled tenant.
18. Credit reports are tied to Social Security numbers since most people have one. Therefore, it is the simplest way to verify credit worthiness. In the absence of a Social Security number you can **REQUIRE** the applicant to provide other ways to verify their identity, ability to pay, credit history and tenant history.

Please see Part II next month for more questions and answers.

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