

Chapter 17

Answer Key

1. a. The management contract defines the relationship between the parties. This agreement creates an agency relationship between the owner and the property manager as a listing agreement does between the seller and the broker.
2. a. As the general agent, the property manager is charged with the fiduciary responsibilities of care, obedience, accounting, loyalty, and disclosure. In all activities, the manager's first responsibility is to realize the highest return on the property in a manner consistent with the owner's instructions.
3. b. Tenant improvements are alterations to the interior of the building to meet a tenant's particular space needs.
4. d. Desirable amenities would be found in properties with a low vacancy rate. When the vacancy rate is high, the manager needs to determine why. The manager should first identify and correct problems before lowering rents as the problem could possibly be poor management or a defective or undesirable property.
5. b. Supply and demand in real estate recognizes that the marketplace can influence trends in occupancy and vacancy rates which in turn affect rental rates.
6. d. The management agreement defines the property manager's responsibilities. These duties generally include creating financial reports, renting property, selecting tenants, maintaining good relations with tenants, marketing, and maintaining the property. The financial reports may be used by a professional tax preparer in completing the income tax reports.
7. c. Risk management attempts to reduce the consequences of unforeseen events which could potentially create financial and personal losses. The four risk management techniques are avoid, control, transfer, and retain.
8. b. The three principal responsibilities of the property manager are to achieve the objectives of the property owner, generate income for the owner, and to preserve and/or increase the value of the investment property. In the process of meeting the goals of the property owner, the property manager is responsible for maintaining the owner's investment and ensuring that the property earns income.

9. d. Preventive maintenance includes regularly scheduled maintenance activities such as painting and seasonal servicing of appliances and systems and routine inspections of the interior and exterior of buildings, equipment and grounds. Preventive maintenance preserves the long range value and physical integrity of the property.
10. b. The management agreement creates the agency relationship between the property manager and the owner in which the fiduciary relationship that is established requires the duty of loyalty of the property manager to the owner.
11. d. The criteria for tenant selection should include the spatial requirements of the tenant, the tenant's ability to pay the rent, and compatibility of the tenant's business with the other tenants. Ethnic background of the tenant or employees should not be considered in order to avoid violation of any local, state, or federal fair housing laws.
12. d. The management fee or other form of compensation may be based on a percentage of gross or net income, a fixed fee, or some combination of these and other factors.
13. a. The management contract establishes the agency relationship between the property manager and the owner.
14. d. If a property manager fails to treat all tenants the same in terms of rent collection and enforcement of lease terms or rules and regulations, the manager could be in violation of fair housing laws. A good manager is tactful and decisive and acts to the benefit of both owner and tenant.
15. d. The property management profession is affected by several federal laws. These federal laws include the Americans with Disability Act, the Equal Credit Opportunity Act, and the Fair Housing Act which all help to ensure that consumer rights are not violated, whether those rights involve the need to make accommodations for those with disabilities or the need to treat all housing applicants the same. The environment is also an important property management issue. Tenant concerns, as well as federal, state, and local regulations, determine the extent of the manager's environmental responsibilities.
16. d. Tenant fixtures are personal property belonging to the tenant and are maintained by the tenant.
17. d. $12 \text{ feet} \times 20 \text{ feet} = 240 \text{ (sq. ft)}$; $\$450 \times 12 \text{ months} = \$5,400 \text{ (annual rent)}$; $\$5,400 \text{ divided by } 240 \text{ sq. ft.} = \$22.50 \text{ (rent per square foot)}$