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SPECIALIZED HOUSING

KEY TERMS

Common elements
Condominiums
Cooperatives
Covenants, conditions, and restrictions (CC&Rs)
Management pricing worksheet
Manufactured home parks
Planned Unit Developments (PUDs)
Proprietary lease
REOs (lender owned)
Section 8
Section 202
TRACS
U.S. Department of Housing and Urban Development (HUD)

LEARNING OBJECTIVES

At the end of this chapter, the student will be able to:

1. distinguish the differences when managing cooperatives, condominiums, and planned unit developments (PUDs);
2. describe the importance of accurate budget projections when determining management fees;
3. summarize the issues involved when managing subsidized housing; and

4. explain the similarities and differences of managing manufactured home parks and housing for the elderly.

OVERVIEW

As land and construction costs become more expensive, people are turning to less expensive forms of housing such as cooperative and condominium forms of ownership, planned unit developments, and mobile home parks. Subsidized housing is still a fact of life as housing costs increase faster than wages. Baby Boomers are aging and will demand "older person housing," lower-cost housing, or both. All of these factors present management opportunities.

Cooperatives and condominiums are multiple-occupant properties in which the occupants of the premises have a vested interest in the building. Although there are retail, office, and industrial use condominiums, most cooperative and condominium projects are residential properties. Therefore, this chapter focuses on residential cooperatives and condominiums, and a variation called *planned unit developments (PUDs).* PUD homeowners own their houses and land, but share ownership and responsibility in certain public areas. Management of PUDs is similar to that of condos and co-ops.

From a management perspective, these specialized forms of residential management share many characteristics of ordinary multiple-occupancy structures, but the form of ownership changes the manager's goals and objectives.

The apartment manager represents the building owner to the tenants of the owner's property, whereas the property manager of a cooperative or condominium works for a group of owner-occupants. Management is most concerned with administrative duties and maintenance of the common areas, because each owner is responsible for the condition and upkeep of the individual units. Unlike the apartment manager, the manager of a cooperative or condominium usually has no responsibility for maintaining occupancy levels.

Resort housing consists of single-family houses, condominium, or cooperative units. During the high season, the manager markets, approves short-term leases, and arranges cleaning and maid service; during the low season, he or she is concerned with maintenance and security. In multitenant properties, the manager must balance the owners' objectives with the overall rules of the community.

Subsidized housing projects have unique ownership structures and management requirements. Many of these properties are built in order to gain tax credits for the owners, often anonymous and absentee. These managers must be conversant with many additional local, state, and/or federal guidelines regarding income verification and tenant qualifying as well as tax code requirements. Several trade associations offer a designation in tax credit management as on-site compliance is one of the key risks involved with managing tax-credit properties discussed in Chapter 9.

Another area of opportunity involving property management skills is "REO sales." The REO is a property that has been repossessed and is now owned by the lender.

Many lenders use a "listing agreement" that basically involves property management functions.

MANAGING COOPERATIVES

Some co-ops look like apartment buildings, and a cooperative community may look like any other suburban development, but differences in ownership affect responsibilities, liabilities, and maintenance. Co-op ownership is becoming popular with two groups who want the tax advantages of home ownership with the minimum responsibilities of maintenance and repairs: young people just entering the job market and retirees leaving the job market.

Structure of Cooperative Ownership

In **cooperative ownership** the apartment owner purchases shares in the corporation (or partnership or trust) that holds title to the entire apartment building. The ownership of the building can be either trust or corporate in nature. The principal asset of the cooperative is the building. The co-op shareholder receives a **proprietary lease** granting occupancy of a specific unit in the building. The cooperative owns the building and the shareholder owns a lease (personal property).

The owner occupies an apartment as a lessee under the terms of the lease but does not own it. Each lessee must pay a pro rata share of the corporation's expenses, which include any mortgage charges, real estate taxes, maintenance, payroll, and such. The owner can deduct a proportionate share of the taxes and interest charges for tax purposes (provided 80% of a cooperative's income is derived from tenant-owner rentals).

The success or failure of cooperative ownership depends on every lessee paying his or her pro rata share. Many cooperative associations reserve the right to approve or reject subleases and sales, which can delay transfer of ownership indefinitely.

Trust ownership Legal ownership of the building is placed in the name of a trustee, which may be a trust company. The trustee issues beneficial participation certificates, or memberships, in the amount of the purchase price of the property (total cost minus mortgage). Trustees of the trust share responsibility for managing the cooperative or hiring a professional property manager to assume these duties. An individual with a membership certificate is granted the right to occupy a unit in the building subject to specific rules and regulations.

Corporate ownership Corporate cooperatives are established as corporations. The corporation then issues stock of a total value equal to the purchase price of the cooperative, again figured by subtracting the amount of the mortgage from the cost of the property. This stock is allocated among the units of the building according to their relative value. Purchasers of stock in the corporation are then granted the right to occupy a unit under a proprietary lease. A board of directors, elected by the shareholders, is in charge of the operation of the property. The board has the right to engage the services of a professional property manager, if it so desires.

Share/Proprietary Lease

The proprietary lease is inseparable from the share of stock and lasts for the life of the corporation or trust and is subject to rules and regulations established by the corporate charter and bylaws. Among these rules is the provision that the mortgage debt and the operating expenses for the property are divided among the occupants through monthly assessments.

Share allocation The number of shares allocated to a unit could be equal, or more commonly, they are determined by the size of the unit, its location in the building, and its features. As part of the lease, the charges consist of a monthly assessment for operating costs based on the par value of the shares allocated to the unit plus that unit's proportionate share of the total mortgage debt for the property.

For example, in the case of a 20-unit building worth $800,000 and subject to a $400,000 mortgage, the equity base held by the corporation totals $400,000 and could be represented by 4,000 shares of stock worth $100 each. The purchaser of 5% of the stock, or 200 shares, would hold a proprietary lease for a unit valued at $40,000 subject to a mortgage debt of $20,000. If the total monthly mortgage payment for the building was $4,000 and operating costs, including payroll, property taxes, insurance, management fees, utilities, services, supplies, maintenance, and reserve funds, totaled $6,000 per month, the holder of this lease would be assessed $500 per month ($4,000 × .05 = $200; $6,000 × .05 = $300).

Covenants Under a proprietary lease, the interior maintenance of each unit is the responsibility of the lessee, as are all utilities for the apartment except possibly water and sometimes heat. Corporate responsibilities include maintaining structural elements such as in-the-wall plumbing, electrical and ventilating systems; cleaning exterior and interior public areas; and ensuring efficient services and the smooth operation of the property.

The lease should also establish the lessee's liability for negligence and limit the lessor corporation's liability for damage and injury. The rental section provides for some token rental consideration, monthly assessments, and additional rent. Generally, the board of directors is empowered to adjust the monthly assessment as the need arises.

Default If some occupants are unable to meet their monthly assessments or if they contract for services for which they are unable to pay, the remaining shareholders must bear the extra costs. Otherwise, the trustee or corporation will default on the mortgage or a mechanic's lien might be filed against the title to the property. Hence, most proprietary leases provide remedies in the event of monthly payment defaults.

The ultimate penalty is usually cancellation of the lease and forfeiture of all shares. The corporation would then own the unit and could sell or lease it.

Reserve Funds and Right of First Refusal

Generally, a small amount is added to the monthly maintenance charge to maintain a reserve fund. Lessees usually receive an audited operating statement at the end of the year along with a forecasted operating budget for the next year. The lease also specifies that adequate insurance be carried on the entire property, a necessity for cooperatives.

To protect the financial integrity of the cooperative as a whole, most proprietary leases state that the right of possession of the unit may not be transferred without the consent of the board of directors. Others give the corporation the first right to purchase the stock or the certificate and lease of an occupant who wishes to sublet or sell out.

The Property Manager's Role

The cooperative property manager's first responsibility is to fulfill corporate aims on behalf of the shareholders. This usually includes maintaining the physical integrity of the property, ensuring ongoing services to the occupants, and submitting regular operating reports to the board of directors. The precise services rendered can range from a periodic consultation to full-time management services on a fixed-fee basis. The aims of the corporation and the services expected from the manager should always be spelled out in a detailed written contract.

Because the property manager must operate within the economic confines imposed by the board of directors, he or she must have some input when the operating budget for the coming year is drawn up. The manager will find the *Income and Expense Analysis: Condominiums, Cooperatives, and PUDs,* published by IREM, a valuable source for comparison with other associations when preparing a budget. The manager must make a realistic calculation of maintenance costs, one that provides for a contingency reserve fund to alleviate future increases in monthly payments.

Dealing with numerous resident owners on a day-to-day basis requires a great deal of skill on the part of a manager. Managing cooperatives has its downside; an inordinate amount of time must be spent attending monthly meetings, communicating with various tenant-owners, setting agendas and budgets, and most difficult of all, refereeing disputes between tenants.

The advantage of managing cooperatives (and condominiums) over apartment buildings is that members occupying their own units generally take more pride in their surroundings. Also, these tenants want to be more informed about management policies and practices. The manager should accommodate them and foster goodwill by providing information (including operational programs, progress, and annual reports); soliciting opinions both in person and through written questionnaires; and encouraging feedback. A monthly association newsletter for all owners is a valuable tool in this respect, and occupants should be encouraged to contribute items for publication.

Fractious differences of opinion among the owners may ultimately result in disgruntled shareholders or members, a stagnant corporation, needless expense, and reduced service. The property manager can avoid this pitfall of cooperative ownership. Acting with the approval of the board of directors, and responsible only to it, the manager can assume full responsibility for the operation of the property, including employment decisions, maintenance functions, accounting reports, administration of corporate policy, and transference and registration of corporate stock.

In the management contract, managers should suggest a provision to allow them to function as a nonofficer administrator of the governing association—the person in charge of preparing the agendas for all meetings of the directors and stockholders, recording the minutes of these sessions, and providing the members with copies. To fulfill these obligations, the manager must be familiar with corporate law and procedure and have an experienced attorney available for consultation.

Cooperative managers need copies of the incorporation documents, the corporate seal, the stock journal, the bylaws, and minutes of previous board meetings.

> ▶ One note of caution: The cooperative form of organization occasionally has been used for discriminatory purposes. A property manager considering employment by a cooperative should avoid association with any group he or she suspects of discrimination. For more information on discrimination and fair housing laws, see Chapter 10.

MANAGING CONDOMINIUMS

The condominium has been a revolutionary and rapidly growing form of ownership in U.S. real estate ownership for more than four decades. From a successful beginning in Puerto Rico in the 1950s, condominium units have accounted for a notable percentage of all new housing starts because the condominium may often be priced lower than a single-family home. While the new co-op owner receives a proprietary lease—that is, personal property—the new condominium owner receives a deed to real property. Therefore, interest and ad valorem taxes are conveniently tax-deductible inasmuch as they are applied directly to each unit, as opposed to the co-op ownership, whereby the co-op owner *may* deduct a proportionate share under certain conditions.

Ownership Structure

Condominium ownership estates in real property consist of an individual interest in an apartment or commercial unit and an undivided common interest in the common areas in the condo project, such as the land, parking areas, elevators, stairways, and exterior structure. Each condominium unit is a statutory entity that may be mortgaged, taxed, sold, or otherwise transferred in ownership, separately and independently of all other units in the condo project. Units are separately assessed and taxed. While some condominium associations reserve the right of first refusal when a sale is proposed, and many restrict the right to rent out the unit, the individual owner has many more options than when owning a proprietary lease in a cooperative.

A condominium development is created by the filing of a condominium map or condominium plan. Sometimes, the investor will change the ownership structure of an existing building. In this case, each tenant purchases a unit plus a percentage of the common areas and the land from the present property owner or the investor, who acts as an intermediary. Most often, however, condominium projects are multifamily communities built by speculative developers for sale to individual buyers.

Covenants, Conditions, and Restrictions (CC&R) Declaration

Most state laws enable and regulate the formation and control of condominiums. The Articles of Incorporation sets up an owners' association (HOA), which follows appropriate state law and defines the property, common elements, easement, and type of ownership. This owners' association operates in the same way as a cooperative board of directors.

The rights, privileges, and limitations of the association directors are controlled by the bylaws set forth in the CC&R declaration. The board assesses fees for common areas maintenance and association operation costs. It typically authorizes the association to designate the insurance liability of the association and of the individual owners, prorate the common property tax bill among the units, regulate property use, establish a reserve fund for repairs and improvements, and maintain the common elements as described in the governing documents. The association is usually empowered to employ outside professional management.

The CC&Rs often provide for the sale, lease, or transfer of rights in the property. It is not uncommon to require that prospective tenants be qualified by the management company. Moreover, some prospective purchasers may have difficulty obtaining a mortgage if a high percentage of the building is tenant occupied.

In many states, condominium statutes, although similar to cooperative laws, are less demanding. Because each owner holds fee simple title to a unit, failure by one unit owner to pay a mortgage does not endanger the financing of the entire project, as it might with a cooperative project. It is for this reason that condominium ownership has become so popular.

The association may regulate the resale of individual units. Resales are often subject to the right of first refusal by the other owners, minimum credit and reference criteria for the purchaser, or approval by the owners' association. The regulation of resale of condominiums must not be used as a facade for discrimination. For this reason, the restriction of resale rights to condominiums has been severely curtailed by the courts.

The Property Manager's Role

The rapid expansion of the residential condominium market has opened new opportunities for property managers. Condominium management, like cooperative management, is concerned mainly with maintaining the integrity of the premises, ensuring ongoing service to occupants, and attaining other mutual goals of the owners. Before taking over an association, the manager should thoroughly read the CC&Rs, carefully study recent operating reports, and review the amounts in any reserve funds.

The manager is usually responsible for billing and collecting assessments and keeping accounting records. Generally, the manager maintains all common areas and advises the owners' association. The property manager usually provides the cost data necessary to draw up an operating budget and make individual assessments for maintenance and reserves, constantly balancing the owners' desires for lower maintenance fees against the need to spend money to preserve the property. A reserve fund is typically required by some financiers but definitely should be established to save for major repairs, keeping in mind that some very large expenses will be accrued when the property must be repainted and the parking lot repaved.

Before taking on condominium or cooperative management, the manager should closely study local and state law and governing documents. Legal structures vary even within the same state. For example, Florida now requires a Condominium Association Manager's license for anyone who manages an association that totals 50 units or has a budget or combined budgets of at least $100,000. Some states require condominium managers to hold property manager or real estate licenses. This trend towards increasing regulation and licensing requirements is likely to be followed by other states.

Like the board of directors of a cooperative, the owners' association is an elective body, not a permanent group. Thus, the manager is often given full control of building operations to ensure stability and continuity of operation.

In some areas of the country condominiums are predominantly used as second homes—that is, they are occupied by the owner for a portion of the year and then rented during the off-season. A year-round property manager may assume responsibility for leasing the owners' apartments during their absence, but as a separate and distinct duty outside association management.

Management Contract

The manager should insist on a written contract describing the rights and duties of each party. Areas that should be covered in detail are collection of assessments, accounting and budgeting, maintenance standards, personnel employment, legal status of the manager as an agent, emergency spending, and handling of owners' money. The management contract should also specify the amount of compensation and other terms of the agreement (hours, cancellation). The manager should negotiate a contract for a guaranteed and reasonably long period knowing that the owners' association governing board will change frequently.

The **management pricing worksheet** (Figure 9.2 in Chapter 9) is an excellent place to define the time and expense that goes into condominium management. Without such a guideline, the manager may never receive adequate compensation for the time and effort expended in managing the property. Note, however, that the initial agreement for a new condominium is drawn up between the developer, acting on behalf of the owners, and the property manager. Not until the board of directors is elected does control pass from the developer into the hands of an owners' organization. To prevent a developer from retaining control over the property when the owners' association should be functioning independently, many states have enacted legislation imposing a maximum allowable term for management contracts negotiated by developers.

Fannie Mae Requirements

On the national level, the secondary mortgage markets impose requirements when underwriting purchase loans. Fannie Mae regulations require that developers turn over a condominium association to the owners as soon as a specific percentage of units have been sold and that reserve funds for major repairs be established. Some lenders will not make loans to prospective purchasers if too many of the units are tenant-occupied.

Required Information at Time of Transfer

At the time that management responsibility is transferred to the manager, he or she will require the general types of information and records discussed in Chapter 3. Condominium managers need in addition copies of the covenants, conditions, and restrictions for the building's use; other controlling documents; and any warranties held by the developer and still in force.

Insurance

The owners' association usually purchases insurance to cover all the common elements. The individual unit owner must purchase a condominium policy to cover the owner's personal property and any additions or alterations made to the unit. This policy is often referred to as *HO-6.*

The property manager should continually emphasize to the individual owners and the association the importance of carrying adequate insurance. Insurance claims can get complicated—for example, a washing machine hose may disconnect and flood a top floor unit while the owner is on vacation. The occupants of the unit below, which also flooded, happen to be out of town on business. As a result the leaking water is not noticed for several days, at which time it is discovered that six units have water damage, several quite extensively. This scenario is not uncommon, unfortunately. The insurance companies of each unit and that of the association are involved in sorting out the liability.

MANAGING PLANNED UNIT DEVELOPMENTS (PUDS)

The **planned unit development (PUD)** is a highly popular concept in land development that is designed to produce a high density of building improvements and maximum utilization of open spaces. These neighborhoods often mix residential with common recreational areas. Owners not only own their own houses, but they have an interest in the community homeowners association that manages the common areas. The common areas can be quite minimal or quite extensive, including parkland, pools and golf courses, clubhouse facilities, and jogging and biking paths.

Covenants, Conditions, and Restrictions (CC&Rs)

Usually, the developer creates the **covenants, conditions, and restrictions (CC&Rs)** to enhance the overall quality and desirability of the neighborhood and to keep up the values. Once the developer has sold out, he or she will turn over enforcement of the CC&Rs to the community association. The homeowners are bound by the CC&Rs. Some restrictions might include certain house colors, where to park a boat or recreational vehicle, prohibiting certain types of fences, number and kind of pets permitted, and so on.

Property Manager's Role

In practice, the management of a PUD is very similar to that of a condominium. The manager is expected to see that the common property is maintained while, at the same time, keeping fees as low as possible.

Education for the Manager of Any Community

The Community Associations Institute (CAI) sponsors an extensive educational program including a professional management and development program consisting of courses of training in every aspect of condominium and homeowner association operation. Successful completion of the course, coupled with employment experience as a manager of a community association, earns the designation of Professional Community Association Manager (PCAM).

The CAI is an independent, nonprofit research and educational organization formed in 1973 to serve as a clearinghouse and research center on community associations. The CAI does not represent any one profession or interest group; rather, it supports the process of creating and operating a successful viable community association. Its membership is open to anyone involved with that process.

BUDGETS AND MANAGEMENT FEES

On the whole, many condominiums and cooperatives suffer from a lack of long-range planning. A professional property manager can avoid the problems that often arise when a condominium or cooperative development chooses inadequate service contractors in a misguided attempt to cut operating costs. Emphasis should be made on managing for value rather than for profit.

Importance of Accurate Budget Projections

In budget projections, the manager should make allowances for inflation and increasing rates. As the property ages and more repairs are needed, the reserve funds for contingencies and replacement of major items, such as roofs and central heating and air conditioning, should be increased. The manager should not be dissuaded by pressure from the owners association or to base any activity on internal political considerations.

Income

Condominium income comes almost entirely from assessments to members (owners of units), and income is budgeted to meet expenses.

Expenses

Most expenses relating to or arising from fee simple ownership of a unit are the sole responsibility of the owner. Some examples are utilities, interior decorating, interior maintenance, condominium homeowners insurance covering occupant improvements, and appliance or fixture replacement. In some condominium projects, however, water supply and utilities for electricity, heating, and air-conditioning may not be metered separately to units. In that situation, a unit owner will pay a pro rata share of the total condominium expense.

Common elements The expenses of **common elements** of the project are allocated among the unit owners based on their percentage ratios. The common elements of a project include not only structural portions of a building such as foundation, walls, and roof; but common walkways, parking, and other areas for the use and benefit of all owners. Swimming pools, recreation and laundry rooms, storage areas, and the like are considered common elements.

Limited common elements In addition to the common elements, some condominiums establish limited common elements. These are areas such as porches, patios, or storage closets designated for the private use of the unit owner but not owned in fee simple as part of the unit itself. The unit owner must follow CC&R rules for these spaces as well.

Calculating pro rata share An owner's pro rata share for each unit is determined by state statute and/or the ratio the square footage of the unit bears to the total square footage of all units in the project. It is expressed as a percentage, such as 1.034%. This percentage is established in the original condominium declaration (called *unit ownership declaration* in many states) and is the basis for allocating expenses applicable to all units. The monthly pro rata charge is allocated to each unit for recurring budgeted items, which is based on the percentage set forth in the declaration, and billed to each occupant as a regular assessment. Reserves for replacement also should be calculated in and collected as part of the regular monthly assessment.

Capital expenditures If the need for an unbudgeted capital expenditure arises, a special assessment will be necessary, which must be levied by a vote of either the board of directors of the association or of the owners themselves, depending on the condominium declaration and bylaws. An experienced association manager will keep such surprise special assessments to a minimum by proper use of reserves. If reserve funds are inadequate, special assessments can run into the hundreds or thousands of dollars for each owner, depending on the total required for the expenditure. Such an occurrence can create severe problems for the condominium owners and for the association itself.

Cost-per-Unit or Pricing Worksheet

Condominium and cooperative management fees can be calculated using either the cost-per-unit method or the pricing worksheet explained in Chapter 9. Condominiums and cooperatives that contract only for an accounting or consulting service can be charged a minimum fee, but there should be an additional charge for attendance at more than one board meeting per year.

With the per-unit method, a surcharge should be added for the additional time spent satisfying a board of directors or an owners' association.The manager should also charge additional fees to cover the time expended on other specified duties such as attending board or association meetings or developing a newsletter for circulation to stockholders or owners.

Flat Fees

There is a compelling reason why the management figure should be a flat fee rather than a percentage of gross income, as is used for residential apartment fees. A percentage fee gives the residential manager incentive to raise rents and thereby gain extra profit. The revenue from cooperatives and condominiums comes not from rents but from monthly assessments to cover operating costs. Managers who contract for a percentage fee profit more by allowing operating costs to skyrocket because this increases the monthly assessments (total revenue) and thereby, the percentage management fee. They also profit from increases in real property taxes and reserve funds.

Because a percentage fee would place the owner and the manager in opposite camps, a flat fee should always be used when dealing with condominium and cooperative properties. In general, the manager also should quote a fee slightly higher than that on the estimate because any increase in the management fee will have to come from negotiation with the board or association, at which time competitive bids will usually be solicited.

MARKETING AND LEASING COOPERATIVE AND CONDOMINIUM UNITS

Marketing Communities

In general, cooperatives and condominiums are marketed in a manner similar to that used for prestige apartments and other luxury residences. Most developers use their own or outside sales agents for the initial sale of such properties, but the manager should be able to suggest marketing and publicity techniques when called on to maintain the occupancy level. Most large condominium and cooperative projects are advertised in newspapers and local magazines because media publicity can be a cost-effective means of presenting the project to the buying public.

Some cooperatives and condominiums are marketed toward a particular segment of the population. For the military market, for example, communities are established to cater primarily to retirees of a specific branch of the armed services; others target golfers or boaters; still other projects are designed for the elderly. The property manager involved must be especially current with and follow fair housing marketing and management practices when catering to a special group.

Condominium and cooperative managers must modify the financial reports used by apartment managers, discussed in Chapter 9. They must prepare an annual operating budget, monthly income and expenditure statements, and yearly cash flow reports. However, the more complex system of ownership and the fact that the residents are also the owners creates unique budgeting problems for condominiums and cooperatives. Because there is technically no income in a not-for-profit association, specialized training, such as that provided through the CAI, is required of association managers.

Many condo and co-op units are not owner-occupied. Serious problems may arise if tenants are not carefully qualified or do not follow association mandates.

Rental may be handled individually by the owner, by a third-party manager, or by or through the owners' association, either on an individual unit basis or as part of a rental pool. Under a pool arrangement, all rental income from all units in the condominium is placed in a fund that is shared equally after management expenses. Thus, an owner with a unit that may not be attractive to prospective tenants can participate fairly with units for which there is higher demand.

In any event, the apartment rental principles discussed in Chapter 11 are applicable to renting condominiums and cooperatives. The only real difference is that the association declaration, bylaws, and resident rules and regulations take precedence over the terms of the lease. For this reason, a manager should secure legal assistance in drafting a clause, which should appear in each lease: Tenant occupying (the owner's unit) acknowledges that the premises are a condominium project governed by a condominium declaration, bylaws, and rules and regulations. A copy of these documents has been furnished to tenant. Tenant agrees to abide by these rules and regulations. Tenant understands that violation of any of them may be grounds for eviction.

MANAGING SUBSIDIZED HOUSING

Actual construction and operation of public housing projects for low-income families has traditionally been the responsibility of local governments. In 1965, Congress authorized the U.S. Department of Housing and Urban Development (HUD) to provide financial assistance to local housing authorities for the acquisition and operation of existing buildings or privately constructed new housing for low-income tenants. Under the 1968 Housing and Urban Development Act, the Federal Housing Administration (FHA), an agency of HUD, was authorized to encourage private participation in the development and construction of housing for low-income families through rental and mortgage insurance programs. FHA-insured mortgages and government subsidies were awarded to nonprofit cooperative groups for the construction of low-income housing.

In the late 1970s and early 1980s, housing funds were made available to private owners to build and manage affordable housing for the low, very low, and extremely low income population. These units are available throughout the country. Although owned and managed by private owners and agents, the units must adhere to strict HUD enforcement regarding verification of resident income and meet very high standards of physical condition.

Today, HUD is pushing for the privatization and project-based management of public housing. As there are 3,400 public housing authorities in the United States responsible for more than 1.3 million units, cooperating with HUD is a great opportunity for many property managers. These complex networks are in sharp contrast to private management, which often gives employees authority to make many decisions on-site.

Each government program comes with its own set of rules and criteria. This discussion will highlight certain elements common to each program, but the property manager truly becomes a specialist when managing subsidized housing.

Section 8 Housing Assistance Programs

Single family homes or apartments in public housing buildings covered under the HUD **Section 8** Housing Assistance Payments Program are rented on a subsidized basis. A low or very low-income family will pay up to 30% of its adjusted monthly income; HUD pays the landlord the difference between that and market rent. Income eligibility for occupants of public housing varies according to geographic area and the number of dependents in the family.

In 1996, HUD established the Real Estate Assessment Center (REAC) in order to assess the stock of private HUD housing in the United States. This set of stringent physical standards requires owners and agents to maintain HUD housing to the highest standards of safe, decent, and sanitary housing. REAC has been instrumental in changing HUD housing for the better.

Vouchers for Private Owners

In addition to public housing, the local housing authority in some cities contracts with private investors for housing for eligible recipients. Tenant screening is left up to the private landlord that chooses to accept the vouchers awarded to the resident by the local public housing authority. HUD has developed several standard lease forms to be used with public housing, and the property manager must use these forms and be familiar with their provisions.

Tenant Rental Assistance Certification System (TRACS)

HUD developed a computer system to improve the management of all assisted housing programs. The Tenant Rental Assistance Certification System (called **TRACS**) gives HUD a central information system used to verify subsidy calculations. TRACS has automated the collection of tenant data and provides HUD offices with an online database, significantly reducing HUD's paperwork. TRACS is already reducing fraud, speeding up the turnaround of information processing, and improving the management of and budgeting for subsidy programs.

Need for Professional Property Management

All subsidized public housing developments, of whatever type, have a common need for ongoing, competent management. Since its inception, low-income public housing has suffered from both inadequate property management and bureaucratic mismanagement. Effective January 31, 2010, all public and private affordable housing owners must use HUD's Enterprise Income Verification system (EIV). EIV provides data from TRACS and both the Social Security Administration and the Heath and Human Services New Hire database to ensure that residents are making a full and adequate disclosure of household income to landlords to reduce waste and fraud of HUD funding. This will allow more households to take advantage of available federal programs.

In an effort to stay solvent, properties are funded with many types of federal funding, each of which have specific rules and regulations and require great attention to detail to stay in compliance. Thus, the need for trained, affordable professionals is greater then ever.

Professional property managers who choose affordable housing as a career have a number of options for specific training and certification through local HUD offices and state finance agencies. Some of the available certifications follow:

- National Affordable Housing Management Association (NAHMA): Certified Professional of Occupancy (CPO), National Affordable Housing Professional (NAHP), National Affordable Housing Professional Executive (NAHP-e)
- National Apartment Association (NAA) in cooperation with NAHMA: Specialist in Housing Credit Management (SHCM)
- National Home Builders Association (NHBA): Housing Credit Certified Professional (HCCP)

HUD is attempting to correct the lack of trained management by conducting management courses, sometimes in connection with local colleges, and by certifying managers who have graduated from HUD-approved management courses. Additionally, most of the certification programs offered by trade associations contain specific courses in managing low-income housing.

Management Plan

Although low-income housing is managed in much the same way as other types of housing, the larger dwelling units and greater population density, typical characteristics of public housing, create heavy use and significantly higher maintenance costs. Tenant turnover, vacancy rates, rent loss, and collection costs are also higher.

The manager should outline specific problems in each housing project: for example, disadvantages of the neighborhood (such as vandalism); the physical condition of the interior and exterior of the premises; the quality of present building operation, administration, and staff; and the current state of tenant relations. Then the manager can decide which areas need personal attention and which areas can be delegated to a subordinate.

An economic study of the property's financing structure provides the data necessary to draw up a realistic and comprehensive budget. Existing rental rates should be compared to the rental income needed to meet projected expenses; then plans (such as an on-site program or a stricter rental collection policy) for meeting extra costs can be formulated. Each month the manager should measure actual progress against the prognosis and make appropriate adjustments.

Consistency with tenants A consistent Tenant Selection Plan (TSP) for initial tenant screening helps to avoid later undesirable conduct. At a minimum, the TSP should include credit and criminal checks. Landlord references may uncover a history of property damage, noise complaints, or other problems. The manager should not tolerate nor cater to anyone abusing the system.

All residents should receive a copy of the building regulations, clearly establishing the expectations and obligations of both parties. The manager must firmly and reliably enforce those regulations, particularly those concerning pets, maximum number of residents per apartment, security precautions, trash handling, noise, and prompt rental payments.

Responsiveness Residents want to live in a building that is efficiently operated and maintained, and they can often devise a better way of coping with a particular problem such as building security. An open dialogue shows the tenants that management is doing its best to keep the property safe and clean, encouraging their cooperation in these efforts. Repairs should be made quickly, as good repair service shows that management is sincere about maintaining the building.

Rent collection The system for rent collection should be inflexible. If the rent is not paid within the specified period, appropriate legal action should be taken. This may sound harsh, but there are compelling reasons for management to insist on prompt rental payments.

If rent delinquencies are tolerated, payments on the mortgage and other expenses for the property will be delayed and late penalties incurred. Lax collection procedures are actually a disservice to delinquent tenants, because those tenants are thus allowed to build up a larger debt than they can afford to repay. The manager also is being unfair to residents who pay their rent promptly, for rental rates will eventually have to be raised to cover the delinquencies.

Building strong tenant/landlord relations Rapport between tenants and management can be improved by hiring a person with skills or training such as those demonstrated by a social worker to handle tenant relations. This individual can act as a conduit of information from the residents to the manager and can assist with programs involving tenant participation. In many cases, a qualified representative can solve minor problems before they become large enough to require management's attention. Also, a manager and staff who are familiar with local public service organizations such as free legal aid societies, low-cost medical clinics, job placement centers, and religious or ethnic organizations can enhance landlord-tenant rapport and help the occupants solve their financial and domestic problems.

Occupant responsibility Tenants should be educated about management procedures and policies and about their own responsibility in the maintenance of the building. Many of them will have to be shown how to care for the equipment in their apartments and how to report maintenance problems. They should be encouraged to take pride in their homes and to report disruptive or destructive behavior. As tenants become more responsible, they become less prone to vandalism.

Tenant Management Participation and Ownership

Groups advocating tenant ownership of public housing have become more active in recent years, joined by consumer and tenant rights organizations and charitable institutions interested in improving social and living conditions for those below the poverty level. Also, management by tenants has long been a dream of many tenant organizations, but only in a few locations has it become a reality. Often local governments are supportive as a means of relieving themselves of ownership and management problems.

When supported by the authorities and by owners, it can be a feasible alternative to nontenant management. In recognition of this fact, HUD has published a rule, "Resident Management in Public Housing," which appeared in the September 7, 1988, *Federal Register.* Many HUD offices have reprinted this issue of the *Register* and make it available for distribution to interested parties.

The first step for a property manager when approached by tenants desiring participation in management (or one interested in encouraging tenant participation in management) should be to obtain a copy of this rule. However, experience shows that professional management is still required even in buildings owned by the tenants.

Drug Abuse and Other Crime

Managers of many subsidized rental properties must cope with drug dealing and high crime rates. To help meet this challenge, Congress passed the Drug Free Workplace Act of 1988 as part of omnibus drug legislation. Based on the provisions in the act, public housing authorities (PHA) receiving grants, operating subsidies, or annual contributions are required to submit a drug-free workplace certification along with an authority's operating budget. All PHAs must also submit a certification with applications for funds.

Companies that contract with a PHA for goods or services in amounts of $25,000 or more must certify to the PHA that they will maintain a drug-free workplace. These contractors or consultants must publish a statement on employee use of controlled substances in the workplace. They must establish a drug-free awareness program to inform employees of the dangers of drug abuse and of company policy with regard to drug use, the availability of drug counseling or other employee assistance programs, and the penalties that may be imposed for drug-abuse violations.

Contractors also must notify federal agencies of employees convicted of criminal drug statutes, and they must notify federal agencies that they are requiring satisfactory participation by convicted employees in drug-abuse assistance programs. Finally, they must provide a good-faith effort to maintain a drug-free workplace.

The term *drug-related criminal activity* means the illegal manufacture, sale, distribution, use, or possession with intent to manufacture, sell, distribute, or use a controlled substance. To assist in providing a drug-free climate within a project, HUD has written a model paragraph for leases to assist managers in removing tenants who deal in drugs or become involved in other criminal activities. The paragraph also serves to amend leases already in force; a 30-day notice must be given to tenants beforehand. The paragraph is as follows:

> The tenant, any member of the tenant's household, or a guest or other person under the tenant's control shall not engage in drug related criminal activity, on or near the Housing Authority's premises, while the tenant is a tenant in public housing, and such criminal activity shall be cause for termination of tenancy.

To further assist managers in their fight against crime, HUD has proposed new rules for allowing police and housing inspector searches in several instances: in emergencies, in common areas of public housing, in vacant apartments, and when consent is given. The proposal includes inserting a consent clause into standard lease documents, which would in effect make the consent to a search part of the lease agreement. This approach is controversial, and, while giving management more power to reduce crime, may encroach on low-income tenants' constitutional rights.

The Future of Subsidized Housing Management

In the early 1990s, subsidized housing was perceived as deteriorating and crime-ridden housing, but this image has changed over the last 20 years through the government program HOPE IV. Studies conducted in 2009 by the Urban Institute indicate that many of the former residents received Housing Choice Vouchers (HCV) or moved into mixed-income developments now live in better housing and in safer environments. Unfortunately, "hard-to-house" families—those with multiple issues that make them ineligible for mixed-income housing or unable to negotiate the private market with a Housing Choice Voucher—have often been shifted from distressed development to another. Both private and government involvement continue to be challenged to meet the needs of every member of society, even those with low incomes.

MANAGING MANUFACTURED HOME PARKS

Manufactured homes (formerly referred to as "mobile homes") have changed a lot over the years. They are no longer trailer houses being pulled down the road or rusting exteriors next door to an automotive dump. However, these images have been hard to overcome. Today's manufactured home is efficient, practical, and affordable housing for 8% of Americans. Some are even luxurious.

Today, the **manufactured home park** is a combination of individual home ownership and homesite rental. It is usually an orderly, well groomed entity and sometimes is indistinguishable from a more traditional development. Once the manufactured home has been moved to the site, most are never moved again, as their value comes from the desirability of the community.

Inexpensive Housing

Manufactured housing can be purchased for far less than it costs to build a traditional home. This is appealing to those with lower incomes, including the elderly on fixed incomes. Today's manufactured home is larger than ever before; 83% of the manufactured homes have three or more bedrooms, and the average single-wide has been growing in size more than 2% per year. More than 1 million Californians live in manufactured homes and there are more than 2,000 manufactured home parks in New York state.

Near-Elderly Housing

Under the Fair Housing Laws, certain housing is exempt from the law requiring access to housing by families with children. The **U.S. Department of Housing and Urban Development (HUD)** defines "near elderly" as 55 and older and "elderly" as 62 and older. Once a community qualifies for this designation from HUD, it can refuse to rent to anyone with children, and many manufactured home parks do just that; in fact, some even market themselves as housing for the elderly. Marketing to these folks is financially sound: near-elderly ages 55 to 64 have the highest per capita income, and seniors age 65 and over have the most discretionary income.

Role of the Property Manager

Manufactured home park management requires a combination of the skills of managing apartment communities with those of managing condos and co-ops. A common task is making sure that the tenants clearly understand the rules and regulations of the park community. If the park consists of rented manufactured homes, then the manager collects rents for the units. In other situations, the home is owner-occupied, and the manager collects a rental fee for the site.

The duties of a property manager vary widely depending on the type of park being managed. In some communities, managers will do little more than show space, collect rents, and prepare reports for the owner. Those managing "seniors'" parks will no doubt perform these traditional duties in addition to scheduling community events that involve many of the members. In fact, creating and inspiring a community feeling is one of the best ways to foster referrals and waiting lists.

In any event, the manager generally is charged with minimally maintaining the value of the park, and often with increasing the value by improving condition and appearance. Every attractive, well-maintained property will attract sound tenants and sell for a higher price when put on the market, even when compared with a poorly maintained park bringing in the same amount of income.

The manager may be directed to track other sources of income from laundromats, vending machines, convenience stores, and the like. Computer software can help greatly. Anyone specializing in mobile park management should consult *Managing Mobile Home Parks*, a book published by the Institute of Real Estate Management (IREM).

MANAGING HOUSING FOR THE ELDERLY

Americans are living longer. According to the U. S. Census Bureau, the population in the 55 to 64 age group will grow by 75% until the year 2020. Many will continue to live in their homes; still others will move into communities specifically designed with the older person in mind. As previously noted, many of the aging population have spendable income, and many of these are moving into manufactured home parks or upscale condo, co-op, or apartment communities.

Age-Restricted Housing

The senior housing industry defines five different types of senior housing. With proper planning, developers and managers can significantly carve out a niche specializing in senior housing, meeting the needs of the fastest growing population segment, those over 55. The description of each type of housing follows.

Active adult communities Those in the 55–65 age group typically sell a larger home and move into an active, resort-oriented community offering single-family detached/attached housing. Residents are looking for a lifestyle, meaning that they want recreational amenities, security, and social functions. They will probably live there for 10–15 years. Many of these homes are condominium-owned, so there is a definite need for professional management, not only of the housing, but also of all of the associated amenities.

Independent living developments The healthy 70–75 age group is willing to move down in size, quality, and range of recreational amenities. Recreational facilities, such as a gym, pools, and garden areas, are more important than golf courses and more active recreation. Many will purchase in condominium communities with ownership of zero-lot lines, courtyard homes, or attached townhouse units, all of which require professional management. Still others will seek out rentals in a multifamily facility with an on-site concierge or staff.

Congregate care communities Elders live on their own with a minimum of assistance, but shelter, social, health care, and support services are provided in this contractual arrangement. Often, although residents may cook in their own units, they share common dining and social areas. Congregate care primarily serves those 75–80 years of age, usually single women and a few couples. Indoor social activities are far more desirable than outdoor recreational facilities, especially in colder climates. Congregate care management may offer services similar to those offered in hotels. Many of these communities are developed as cooperatives, retaining the right to purchase back the apartment, and developing waiting lists.

Assisted living facilities Although not generally licensed as a nursing home, these facilities offer more personal care to the resident who needs assistance with daily activities, such as help with dressing, hygiene, and medications as needed, but does not require round-the-clock assistance. Usually, these facilities can more easily respond to acute medical emergencies and provide related medical services. The market consists primarily of women in their mid-80s. Most of these facilities are designed for singles and not double occupancy.

Nursing homes Round-the-clock nursing home care is more similar to a hospital model than to typical rental situations, and therefore is more likely to be developed by nursing care specialists.

Living Arrangements for People with Differing Needs

Today, the aging baby boomers realize that they will no doubt live longer than their parents, and it is likely that they eventually will need some kind of assisted care. Some communities are planned and developed so that people can move in while they are still healthy and mobile and enjoy an active lifestyle, with the idea that as they need more care, they can receive it at the community. Although this is the age group that will eventually need more care, they are not eager to be mixed with those requiring that care. From a psychological and marketing viewpoint, it is easiest to mix congregate care housing with assisted living arrangements than independent living and congregate care.

Special Requirements

Housing for the elderly requires attention to the original design. Considerations include eliminating steps, if possible; modifying doorknobs and bathtubs; and including brighter lighting. Whenever possible, the manager who specializes in housing for the elderly should be involved from the beginning when rehabbing or constructing a new facility. Care must be taken to ensure that each unit is as accessible as it can be for those who are slower moving or otherwise limited in physical ability.

Section 202

Many of the elderly require housing assistance. Of the quarter-million applicants for federally assisted housing programs, more than a third are elderly persons. The profile is a frail woman in her mid-70s, living alone on less than $10,000 per year. Statistically, in public housing, 34% are elderly, under Section 515 (rural housing); 39% are elderly; and 42% of individuals living in Section 8 housing are elderly. Government program **Section 202** provides capital funding for new construction, rehab, or acquisition of nonprofit facilities for the very low-income elderly. Unfortunately, 202 funding to build 5 to 15 units is often viewed as too small to be self sustaining.

Property Management Skills

Managers of these facilities are called upon to facilitate social events, manage medical emergencies, provide most housekeeping, provide meals, and manage the traditional operating reports to owners. Marketing skills are needed here more than ever. As more communities are being built, there is increasing competition for these tenants. It goes without saying that such managers must have a real affinity for and care for the aging population.

SUMMARY

The manager of alternative forms of multifamily ownership such as cooperative, condominium, or planned unit developments (PUDs) works for a group of owner-occupants who have slightly different goals than either apartment building owners or tenants. Condominium management is concerned primarily with maintaining the physical integrity of the premises and achieving the mutual goals of the owners, and the manager has no responsibility for occupancy levels.

Under cooperative ownership a corporation or trust holds title to the property, and stockholders are granted proprietary leases that give them the right to occupy a unit of the building subject to rules and regulations. The purchaser in a condominium receives fee simple title to the unit, plus undivided common interest with the other residents in the common building elements and the land.

In both types of properties, a board of directors often hires a professional manager to preserve the major structural elements, maintain equipment, clean exterior and interior common areas, ensure operating efficiency, provide services to the occupants, and set up a reserve fund. The association or corporation should purchase enough insurance to cover all common areas and elements, and the tenants or unit owner must obtain the proper insurance to cover the occupant's personal property.

Financial reports for cooperatives and condominiums are basically modified versions of those used for apartment buildings. Either the per-unit method of computing management fees or the management pricing worksheet can be used for cooperatives and condominiums, but additional charges should be included for the extra time involved in communicating with and satisfying multiple owners.

Most subsidized housing is constructed with financial assistance from the U.S. Department of Housing and Urban Development (HUD). HUD requires the use of a computer system, TRACS, thus creating paperless reporting. Effective January 31, 2010, all public and private affordable housing owners must use HUD's Enterprise Income Verification system (EIV) to ensure that residents are making a full and adequate disclosure of household income to landlords to reduce waste and fraud of HUD funding. Managers who work directly for HUD have detailed procedural guidelines to follow and numerous records to keep. Actual physical operation of low-income housing is not substantially different from that of other residential properties. The key to success in managing subsidized housing lies in the ability to be firm, equitable, and responsive to tenants while instilling in them a sense of responsibility for the condition of the property.

As baby boomers age, there is an increasing demand for housing to meet the needs of the elderly by including handicap accessibility. Five types of senior housing are defined: active adult communities (55–65); independent living developments (70–75); congregate care (75–80); assisted living (typically mid-80s); and nursing homes. The first two mentioned often buy into condominium communities with professional management. The trend is to combine assisted living, partial care, and full nursing care in one facility, which may be a cooperative ownership arrangement with buybacks and waiting lists. Property managers specializing in senior housing face many different problems and definitely must care about and for seniors.

Case Study

MANAGING A CONDOMINIUM

John Slocum has been hired by a condominium association to take over its management. The previous management c written the contract so that it would be paid a percentage of the unit owners' monthly assessment fees. Consequently, th more than doubled in the last few years although the unit owners felt that very little maintenance has been performed. Als woman who needed a wheelchair was ready to file a complaint with fair housing officials because she was not given a ram parking space. Other owners had additional maintenance complaints. John sees a challenge.

1. What was wrong with the previous company's charging a percentage of monthly fees?
2. What form of management fee should John propose and why?
3. How should John tackle this project?

Case Study

MANAGING SUBSIDIZED HOUSING

Judy Kelleher has recently taken over the management of a subsidized housing project. Unfortunately, drug dealing and project has reached such proportions that law-abiding tenants are being harassed and generally terrorized. Kelleher firmly b principles of low-cost subsidized housing and is determined to improve the conditions of the housing project.

1. What can Kelleher do to reduce drug dealing and crime in the project?
2. How can Kelleher improve the social conditions of the project?

Review Questions

1. Unlike a manager of an investor-owned apartment building, the manager of a cooperative or condominium has no responsibility for maintaining
    a. occupancy levels.
    b. common areas.
    c. communication with owners.
    d. administrative functions.

2. A PUD is similar in management to a(n)
    a. triplex.
    b. public housing development.
    c. condominium.
    d. investor-owned apartment project.

3. In managing condominiums and cooperatives, emphasis is on managing for
    a. value.
    b. profit.
    c. the short term.
    d. absentee owners.

4. The condominium legal structure has been more popular than the cooperative because
    a. more condominiums have been built.
    b. the occupant is responsible for the interior of the unit occupied.
    c. condominium owners do not risk losing their units in event of default of the owning association.
    d. condominium owners may hire professional property managers.

5. Generally, property taxes are assessed separately on each unit in a
    a. cooperative.
    b. condominium.
    c. limited partnership project.
    d. time-share project.

6. When managing a manufactured home park, income can come from all of the following sources *EXCEPT*
    a. providing nursing services.
    b. renting the site.
    c. renting the house.
    d. providing a laundromat on-site.

7. Developing a sense of community spirit is often useful in encouraging referrals in
    a. a loft building.
    b. subsidized housing.
    c. manufactured home parks.
    d. office parks.

8. In *MOST* states, the Articles of Incorporation
    a. are more stringent than rules and regulations for most cooperatives.
    b. establish owners' associations under most state laws.
    c. prohibit time-share arrangements.
    d. require independent professional management of the owners' association.

9. When a manager is concerned with the physical design of the property and who may have to handle social events and medical emergencies, he or she may be managing a
    a. condominium.
    b. cooperative.
    c. housing for the elderly.
    d. planned unit development.

10. The initial agreement for management of a new condominium is usually between the manager and the
    a. president of the owners' association.
    b. developer of the project.
    c. board of directors of the owners' association.
    d. mortgage company.

11.

Condominium and cooperative managers generally use the same financial reporting system as that used by

a. certified public accountants.
b. treasurers of corporations.
c. managers of apartment buildings.
d. owners of single-family homes.

12. With regard to insurance, the condominium owner must

a. buy separate flood insurance.
b. provide extra liability insurance.
c. be written in as a co-insured on the common elements.
d. purchase an HO-6 condominium policy.

13. The management fee for a condominium generally is

a. prorated among the occupants according to their interests in the property.
b. expressed as a percentage of revenue.
c. divided on a per-unit basis.
d. greater on units sublet by their owners.

14. The initial sellout of cooperative and condominium properties is

a. best done with television advertising.
b. often handled by the first homeowners to buy units.
c. usually accomplished through display and classified ads.
d. first registered with the Securities and Exchange Commission.

15. Fannie Mae regulates condominiums

a. through the Community Associations Institute.
b. in cooperation with HUD.
c. by prescribing standards for condominium mortgages that it purchases in the secondary market.
d. by veto power over the actions of the board of directors.

16. Public housing projects for low-income families

a. have traditionally been the responsibility of local government.
b. include only newly built projects.
c. do not involve participation with the private sector.
d. were authorized by HUD in the 1940s.

17. The manager of low-cost housing should consider employing a person to handle tenant relations because

a. tenants try to take advantage of management with their complaints.
b. this person can save the manager time by screening tenant complaints.
c. this person can provide extra service to the tenants and gain their cooperation.
d. supervising maintenance is a full-time job for the manager.

18. Under HUD Section 8 housing,

a. the tenant gets housing at no cost.
b. housing is rented on a subsidized basis.

c. the tenant pays up to 50% of his or her adjusted monthly income.

d. the standards for eligibility based on income are the same throughout the United States.

19. Collection of rent from tenants in subsidized units

 a. should follow the same firm policy as in privately owned housing.

 b. may be flexible because of the subsidies being paid.

 c. is not of concern because subsidies paid will make up for any losses.

 d. should allow longer grace periods than a private project.

20. HUD contracts with property managers of subsidized housing

 a. vary widely from place to place.

 b. require the property manager to develop report forms.

 c. are generally for a term of years.

 d. are without regard to qualification for the work.