

Chapter 17 – Property Management

1. D

Explanation: The management fee is the only operating expense listed. Other operating expenses include utilities, repairs, property taxes, and insurance. Bad debts and vacancies represent revenues not collected, not operating expenses.

2. B

Explanation: This is a lease in which the rent payments commence at a fixed, often low rate, but step up or increase at intervals as the lease term matures. This gives long-term commercial tenants an opportunity to get started in business without a heavy rent burden during the early years.

3. D

Explanation: The property manager might want to share with the owner the conclusions of a recent appraisal, but it wouldn't be done in the summary statement. A summary statement is a brief report showing the property's financial status over a period of time.

4. D

Explanation: The management agreement must be in writing and signed by both parties. It contains all the terms and conditions of the agreement.

5. C

Explanation: This is a definition of equity.

6. D

Explanation: Real estate is considered an illiquid asset because it is not easily convertible into cash. Bonds and certificates of deposit are investments where the investor's money is tied up for a specific period of time. As a result, the liquidity of these investments is less than stocks or mutual funds.

7. C

Explanation: An investor using leverage should use as much borrowed money as possible and as little of his own money as possible.

8. C

Explanation: Cash flow is the gross income left over after the property's operating expenses, mortgage payments, and taxes have all been paid.

9. B

Explanation: The seller (grantor) sells the property and frees up capital, but retains possession of the land as a tenant.

10. D

Explanation: A property manager usually handles all of the above responsibilities.

11. D

Explanation: The management agreement typically requires the broker to submit summary statements to the property owner on a regular basis, at intervals specified in the agreement.

12. C

Explanation: The property manager is not expected to appraise the properties she manages.

13. A

Explanation: This describes a gross lease.

14. B

Explanation: A lease that calls for increases in a lease's rental payments that are tied to an index is called an index lease.

15. A

Explanation: This is a percentage lease. Percentage leases are most common in shopping centers.