

Stott Property Management Service Booklet

Stott Property Management
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Aloha,

Stott Property Management's mission is to help owners maximize the returns on their Oahu Real Estate Investments. Our goal is to establish a long-term business relationship with you through superior customer service so that you feel confident in recommending us to your friends and family. We strive to achieve our mission and goal by:

- Aggressively market properties.
- Providing regular marketing updates.
- Careful screening all prospective tenants prior to offering a lease.
- Conducting thorough check-ins with video or photos of the property.
- Providing comprehensive cash flow statements on all your properties.
- Offering direct deposit of your funds.
- Conducting periodic property inspections.
- Coordinating all functional and cosmetic repairs with 3rd party contractors.
- Conducting thorough checkouts.
- Offering thorough rental market analysis upon request.
- Coordinating with the Sales Division if you choose to buy an additional investment property or sell a current investment property.
- Offering competitive fees.

The purpose of the Stott Property Management Service Booklet is to provide owners and prospective owners information concerning Stott Property Management's policies and procedures. We look forward to managing your property.

Sincerely,

Tim Kelley, R
Stott Property Management
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The success of any investment is typically measured by the return on investment or ROI. The largest impact on an owner's real estate investment is the original price paid for the property. Not only is the sales price used to calculate the ROI, it often drives the largest fixed expense, the mortgage. While Stott Property Management can't change the original sales price, Stott can help maximize your cash flow.

The keys to having and keeping a successful real estate investment property are:

- Minimize Vacancies
- Attract Quality Tenants
- Control Expenses
- Liability Mitigation

Stott Property Management's services, policies, and procedures are designed to maximize an owner's cash flow over the long term.

Determining Market Rent

The three biggest factors that determine market rent are location, property condition, and lease terms. While the location can't be changed, the property condition and lease terms can be optimized.

Even though each property has some differences, rental property is still a commodity. A prospective tenant searches in the newspaper or via the Internet for property that meets their criteria and will look at those properties that appear to offer the best value first. Stott Property Management uses this very concept in determining a price range that a property will most likely rent for.

Stott Property Management looks at the vacant properties advertised in the Honolulu Advertiser and CraigsList (the two largest sources for prospective tenant phone calls) and compares those asking rents to the actual rents that tenants pay for occupied properties currently under management to determine the rent range. The Market Rent Range will reflect this data and the current rental market trends. Stott Property Management's size and large market presence gives their clients an edge over smaller property managers that have less comprehensive market data available to them.

Marketing Vacant Properties

Prospective tenants use the Internet more than ever to find available rental properties. Stott Property Management advertises all vacant properties on CraigsList, The Automated Housing Referral Network (DOD sponsored website for relocating military members), and in Honolulu's MLS System.

Stott Property Management also advertises in the Honolulu Advertiser and Rentals Illustrated. The cost of this traditional print advertising is passed on to our clients. Our

clients enjoy a significant discount due to Stott Property Management's size. Please call if you have questions about the current rates.

Multiple members of Stott Property Management's staff are available to show prospective tenants each vacant property. This added flexibility gives our clients an edge over those that have hired an individual property manager since one person can't possibly be in more than one place at one time.

Some owners have rented to their friends and relative at below market rents for various reasons. Based on the headaches and difficulties that we have seen owners face when it comes time for these tenants to move, Stott Property Management recommends just gifting friends and family money. A large number of owners end up paying for costly repairs, and/or legal fees in order to remove these tenants when the owner needs to sell or raise the rent to meet their own financial obligations. Any good feelings in the beginning are replaced with ungratefulness and sense of entitlement from the friends and family the owner tried to help. The eviction attorney that Stott Property Management uses charges higher fees when family members are involved.

Vacant Property Updates

During a renter's market, it is often insufficient to advertise a property and just sit and wait for a prospective tenant. When there is a large supply of property available, the best tenants are going to rent the best values. Therefore, it is critical to be aware of the number of inquiries, showing requests, and applications received on a particular property when vacant.

Stott Property Management periodically contacts owners of vacant properties to discuss any recent interest and activity. Stott Property Management will recommend rent adjustments and/or necessary repairs when there is a lack of interest or prospective tenants give negative feedback concerning a property. Vigilance is required even during a Landlord's market because a rent increase could be too aggressive.

Prospective Tenant Screening

Stott Property Management requires all tenants to fill out an application if they are interested in leasing a vacant property. Stott Property Management runs a credit check, calls previous landlords for rental references, and current employers to confirm sufficient income. Once collected, Stott Property Management shares the information with the owner and makes a recommendation to the owner. Stott Property Management will schedule a check-in once the owner approves an applicant.

Property location and condition will often dictate the type of tenant attracted. Therefore, owners with property located in a less desirable location or in poor condition may have to accept a less qualified tenant. Stott Property Management takes those factors into account when discussing an applicant with the owner.

Tenant Check-In

Properly checking in a tenant is as important as the Tenant Screening Process. Hawaii State Law prevents using the security deposit to pay for tenant caused damage if a Property Inventory and Condition Form is not filled out and signed by the tenant. In addition to filling out the Property Inventory and Condition Form, Stott Property Management takes a video or multiple photos of the property during the check-in. The tenants seem to take better care of the property when they know that a visual record is part of the documentation.

Some property managers choose to make cosmetic repairs to the property prior to having a tenant check-in. In some cases, these repairs can be unnecessary resulting in unnecessary expenses. Since Stott Property Management requires prospective tenants to see a property prior to filling out an application, the new tenant already has an idea of the property's condition. As part of the check-in process, the tenant goes through the entire house with one of the staff and checks the cosmetic and operational condition of all the fixtures. Any necessary repairs or requests are noted during the check-in process and handled accordingly. Stott Property Management has found that following these steps helps eliminate unnecessary repairs and lowers maintenance costs by reducing the number of trips a contractor makes to address necessary make ready repairs.

Stott Property Management will send a copy of the video or photos to the client for their review.

Cash Flow Statements

The most important measure of an investments property's financial health is the monthly cash flow that it generates. Stott Property Management provides a cash flow statement every month with copies of invoices and bills paid on the owner's behalf. Stott Property Management can also provide additional reports on request if more detail is needed.

Direct Deposit

Did you know that check fraud occurs more often and still costs victims more than any other financial crime? Identity theft, Internet scams, and e-mail scams attract more headlines, but mailing checks remains a weak link. One individual check is handled by as many as 13 different people. Each time a check is handled, the potential for fraud exists. Fortunately, direct deposit can help eliminate the risk.

A direct deposit transaction is handled only once and it is very secure. Stott Property Management will conduct a test to make sure the money arrives in the desired account once an owner fills out and signs an approval form. The test involves depositing one quarter (25 cents) into the owner's chosen account. Stott Property Management then asks the owner to verify the deposit. Stott Property Management will start sending the funds direct deposit once the owner verifies that the account information has been entered correctly.

The bank's system requires one staff member to enter the payment information, and a second person to approve the transaction. The two-person control prevents a single person access to your funds.

Not only is direct deposit more secure than mailing a check, it is much faster. Therefore, owners receive access to their funds sooner than owners who continue to receive checks via the mail.

Periodic Property Inspections

Properly maintaining a property is critical in keeping repair expenses under control. Failing to be proactive can lead to very costly repairs down the road if simple maintenance items are not taken care of in a timely manner.

There are quite a few landlords that define a good tenant as a tenant that pays his or her rent on time. That definition has landed many owners and Property Managers in hot water when the only thing a tenant does is pay his or her rent on time. Stott Property Management has talked to many dismayed owners who discovered that their property was trashed by tenants who lived in the property for many years and paid their rent on time and never complained and/or by a Property Manager's failure to coordinate necessary repairs.

Stott Property Management visits every property no less than once per year and conducts an inspection. The inspection is designed to make sure that the tenant is taking good care of the property and to check for any maintenance issues that could lead to more costly repairs down the road if unaddressed (water leaks, wood rot, etc.). If Stott Property Management finds evidence of an issue, then contractors are called in to provide their expertise and estimates as necessary.

Please note that this inspection not the same as a home inspection completed by a licensed inspector when a Buyer is considering a home purchase.

Maintenance and Repairs

Stott Property Management uses dedicated staff and specialty software to coordinate and track all repairs with 3rd party contractors. Stott Property Management does not add a mark up to the contractors' bills for this service.

Tenant Check-Outs

When a tenant checks out of the rental, Stott Property Management conducts a thorough walk-through of the property to make sure the tenant properly maintained the property while living there. Contrary to some tenants' expectations, dirt is not normal wear and tear. Stott Property Management will withhold funds for any necessary cleaning, tenant

caused damage, or unreported problems that could have been fixed inexpensively if reported by the tenant.

Rust, dry-rot, worn carpets, and most exterior wear is normal wear and tear. Those items are often found during a check-out and the owner is notified accordingly. Stott Property Management will not withhold funds for repairs addressing normal wear and tear in or on a property.

Rental Market Analysis

Rents are driven by supply and demand and the market can change quickly. Therefore, Stott Property Management conducts a rental market analysis and shares the data with the owners when discussing the asking rent for a vacant property. The data consists of asking rents for advertised properties and actual rents from occupied properties in Stott Property Management's rental pool. The ultimate goal is to find a tenant willing to pay as much for the property as possible with minimal vacancy time.

Coordinating with the Sales Division

Most great Property Managers focus on property management alone and don't make very good sales agents. In large companies, Property Management and Sales don't usually coordinate their activities very closely. However, neither of these issues exist at Stott Real Estate. Tracey Stott Kelley is one of the top Listing Agents on the island and Stott Real Estate also has dedicated Buyer's Agents. Since Stott Real Estate is a small family owned company, the Property Management and Sales Divisions communicate constantly.

If you are unsure of whether you want to Sell or Rent, try doing both at the same time when the property is vacant. When clients use this approach, about 50% end up selling and 50% end up renting.

If you are thinking of buying, why not use the resources of an experienced Property Manager and a dedicated Buyer's Agent to find the right investment property?

Offering Competitive Fees

Stott Property Management is not a discount Property Management Company. In addition to our services, you receive a wealth of experience and market expertise that few other companies can compete with. A \$20 - \$60 per month savings is insignificant to having a property sit vacant for too long or the cost of improperly handling tenant issues.

Frequently Asked Questions

Do I have to use a licensed Property Manager?

No. If you live on island, then you can manage your own properties. If you are an absentee owner, Hawaii State Law requires that you designate a local agent to act on your behalf. The local agent must live on the same island that the property is located. The local agent does not have to be a licensed real estate agent provided that he or she is only acting as an agent for your property or properties. Therefore, you can have an unlicensed friend or relative manage your rental property as long as he or she does provide this service for anyone else.

If you don't live on island, we strongly recommend that you conform to this law. If you are in violation of the law, you seriously jeopardize your options should a tenant cause problems. In addition to suffering lost rental income or repair costs, you can be found liable for additional monetary damages.

What are the risks associated with having an unlicensed person manage my property?

There are a number of laws, rules, and mandatory disclosures associated with renting a property. If you have a friend or relative manage the property, then you run the risk of violating the rules and putting yourself in legal and financial jeopardy. As a property owner, you can be held liable for the actions of your friend or relative even if you are unaware of their actions.

If your friend or relative does not have any investment property or experience with investment property, you should carefully consider the consequences of having a tenant issue without an experienced professional helping guide you through the process. Hawaii State Law is very tenant friendly and improperly handled issues can result in significant costs to the owner.

Stott Property Management has taken over management of several properties from unlicensed managers. Stott Property Management has encountered many cases where the costs due to unnecessary vacancies, poor debt collection, below market rents, delayed maintenance, missing inventory and condition forms, and poor tenant screening have cost the owner tens of thousands of dollars.

How do I minimize my chances of getting sued?

When making a decision to rent a property, an owner should carefully consider any amenity or condition that can raise the risks of a person getting injured on the property. Swimming pools, high decks or lanais, steep inclines, poorly maintained structures, and other potential hazards can increase the chances of someone getting hurt.

If possible, the hazards should be eliminated. If eliminating a hazard is not feasible and the owner still wants to rent the property, then the next best protection is to disclose the hazard to prospective tenants and hire a lawyer to write up a waiver of liability for the tenant to sign with the lease.

Please note that there is no defense for failing to properly maintain a property. Safety issues should be fixed immediately.

How can I protect myself if I do get sued?

Placing your investment property in a Corporation or other legal entity may help protect your other assets if a tenant or guest does decide to sue. You may want to discuss your options an attorney before deciding on the best course of action.

If incorporation is not currently feasible, then talk to your insurance agent about a liability umbrella policy. You can receive substantial coverage in the case that you do get sued for damages for a nominal cost.

Can I attract better tenants by asking a higher rent?

One of the biggest myths in the rental market may be that owners can attract better tenants by asking a higher rent. In reality, when an owner asks above market rent, the owner limits his or her pool of potential tenants.

Most potential tenants look at several properties at the same time. Once the tenants feel that they have seen enough properties, then they will choose the property that provides them the most features and benefits for the most affordable rent.

The best tenants are usually the most informed tenants as well. The tenants with great credit, best jobs, and best prospects also have many more owners that would love to rent to them. Therefore, the best tenant prospects have no problem finding a property for market rent.

Why must I provide a Social Security Number?

Stott Property Management submits a 1099-MISC to the owner and IRS for the year's rental income. The 1099-MISC requires the Social Security Number in order to identify the taxpayer.

Can I require a pet deposit?

The short answer is no. The State of Hawaii limits a security deposit to the equivalent of one month's rent. Since Stott Property Management requires a security deposit equal to one month's rent, a pet deposit is unavailable.

The law does not prevent asking a higher rent for allowing a pet. An owner can weigh the risks of allowing pets against the benefits of receiving more in rent.

Why Does Stott Property Management want to be added as additionally insured on my liability insurance?

Stott Property Management holds liability insurance for any actions by the company and its employees. However, Stott Property Management shall not be liable for the actions of a tenant, owner, or for a defect in the property. The Owner shall provide liability coverage for a possible claim if an accident occurs in the rental property.

Adding Stott Property Management as additionally insured does not cost the Owner any money and helps keep Stott Property Management's insurance costs manageable.

Does Stott Property Management require the tenant to pay General Excise Tax on top of the rent?

No. Since a landlord must disclose the addition of General Excise Tax to a prospective tenant, the landlord is in essence just asking for a higher rent. A prospective tenant just looks at what he or she will pay out of pocket to live in a property. Therefore, Stott Property Management just charges rent and then pays the General Excise Tax out of the rental proceeds (unless the Owner decides to file and pay the General Excise Tax him or herself).

Why must I maintain a minimum balance of \$300?

Stott Property Management's Bank requires a minimum balance to minimize bank fees charged to the account. The balance also allows Stott Property Management to pay an Owner's bills on a case-by-case basis even if there are insufficient funds to pay in any particular month. Stott Property Management may take this action on a temporary basis to help an owner avoid late fees.

Should I buy a home warranty from American Home Shield or another company?

A home warranty company, like any other for profit company, is in business to make a profit. In order for a home warranty company to make money, it must collect more in premiums than it pays out in covered repairs. Therefore, over the long run, you are more likely to pay more in premiums than you will receive in warranty work.

Stott Property Management's experience with home warranty companies is that they do a reasonable job with routine repairs. However, the response to emergency or urgent repairs has often been lacking and Stott Property Management has had to hire another company to repair the problem at the Owner's expense.

Even though a home warranty is often a good feature to offer when selling a home, it is not really appropriate for a long-term rental property.