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JOURNAL OF PROPERTY MANAGEMENT
BRIEFING THIS ISSUE

MANAGEMENT 1968: PROBLEM PREDICTIONS
IREM Chapter Presidents
Comments regarding the coming year are presented by IREM Chapter Presidents, who were asked to look ahead and predict what problems they'd be facing in the coming 12 months. Most agreed keeping up with rising costs and the maintenance of older properties would be presenting the greatest challenges this year.

THE MANAGEMENT LETTER: THE CHANGING REAL ESTATE PICTURE
Lloyd D. Hanford, Sr., CPM
Mr. Hanford also views the prospects for the year ahead and foresees the problems that will have to be faced due to such actions as the British devaluation of the pound and other inflationary maneuvers.

IREM OPEN SESSIONS FROM THE NAREB WASHINGTON CONVENTION
The first session, devoted to “Opportunities for Professional Management in the Federal Housing Program,” featured HUD Housing Assistance Administration General Deputy Abner D. Silverman and CPMs Carl A. Mayer and Joseph Murray. All presented various facets of dealing with public housing projects. The second session dealt with aspects of apartment promotion, and featured Charles Tucker, a well-known advertising and merchandising consultant, who discussed “Put the Pizzazz in Your Apartment Promotion,” and CPM Henry G. Beaumont, who spoke on “Give the Tenant Value—Not Gimmicks.”

GOD, MAN AND THE CONDOMINIUM: CASUALTY LOSS AND TORT LIABILITY, PT. I (THIS MONTH'S COVER)
Patrick J. Rohan and Melvin A. Reskin
Authors Rohan and Reskin delve into the complexities surrounding the establishment of an insurance program for the condominium and analyze the alternatives possible relating to casualty insurance needs, actual or imagined, of the unit owners, mortgagees and association. The cover photo shows Home Federal Savings and Loan of Hollywood, Florida, a condominium that is a combination office and apartment building.
PROBLEM PREDICTIONS

Among traditional features of beginning a new year is that of “predicting” what’s ahead for the next 12 months. As in past years, we have asked the presidents of the various IREM chapters to give us their “problem predictions” for 1968—that is, what areas are most likely to present the greatest challenges to the CPM.

From their replies, three areas stood out: problems resulting from rising costs of operation, from maintaining older properties, and from race relations.

At least 50 percent of the presidents commented on the conflict between the rapidly rising costs of operation vs. a not-so-fast increase in rentals. It was felt that rentals had to be brought in line with these rising costs and also that operations be streamlined for greater efficiency.

The conflict between new construction vs. older established properties also was commented upon by half of the presidents. While some of them felt remodeling and up-dating older buildings was essential to keep vacancies down, others felt a slowdown in renting such properties was unavoidable. All felt some solution for safeguarding the owner’s investment had to be found.

About one-fourth of the replies commented in terms of changing neighborhoods, open housing, and urban renewal when referring to the problem of race relations. While protecting the investor’s property is essential, a positive approach which will ease racial tensions and strife was also advocated.

Whatever the challenges, however, an optimism regarding the coming months can be seen in all the replies, indicating a willingness to face them.
JOHN SAMS HARRISON, CPM/Alabama Chapter (1968)
The coming year will call for all the abilities and knowledge of the professional manager in handling "change"—change from core areas to shopping centers; change from single-family units to condominiums, apartments, etc.; and the inevitable ethnic change of so many neighborhoods. Condominiums and neighborhood changes are just getting started in our area, but I am confident the members of our chapter will handle them well.

D. E. HEYWOOD, JR., CPM/Arizona Chapter (1968)
The biggest management problem in 1968 will be to raise rents to the proper level and to educate the tenants to accept this increase. Establishing proper rent levels in a rising market must be done with professional acumen. Our overall occupancy is very good and improving; however, most tenants feel that rents should remain the same or be decreased. Our problem will be one of educating these tenants to the fact that the supply is short and costs are up and therefore rent raises are justified. Our relatively new chapter will have the continued task of selling the public that professional property management is the best answer to the management of real estate.

W. PRESTON GRAY, CPM/Charlotte Chapter (1967)
One of our greatest problems for the next few months is going to be acceptable financing for new apartment construction and also the availability of desirable land for apartment development. Except for a few soft spots, the rental market in Charlotte is good. Naturally, a slowdown in building could create an even tighter situation. We do not predict any drastic changes in the foreseeable future.

MELVIN H. YAGER, CPM/Cincinnati Chapter (1968)
It seems that some property owners are reluctant to keep pace with the changing times. There are older, well-constructed buildings which could stand renovating, but the owner hesitates to go through with a renovation program even though it would make the building more acceptable to the public and easier to rent. If some owners would realize the money lost through vacancies, I'm sure the capital invested to renovate would more than justify itself. In many instances it would mean increased rentals and less vacancies and turnover.

ROBERT J. HOWE, CPM/Northern Colorado Chapter (1968)
We will have the same basic problems as the entire country—mainly inflation, taxes, Vietnam, racial problems, interest rates, and the coming election. All of these have a direct bearing upon real property management. Vacancies are rather low, but the cost of new construction has increased one-half of one percent per month for the last 18 months. Interest rates are creeping up and because of this
there will be a decline of new construction on a unit basis but not on a dollar basis. The overall mood of the general public, both investors and tenants, will be our main problem for 1968.

ROBERT C. WHITE, CPM/Connecticut Chapter (1967)
As we are experiencing the tightest rental market since the new apartment boom (1958-1967), we will be examining operating expenses in 1968 to determine proper rent levels. We have realized for some time that the going rental rates have not met owners' needs in the ever increasing financing, construction and operating costs. Now relief is in sight and already underway and may later be modified by a new wave of new units.

VANCE C. MILLER, CPM/Dallas-Fort Worth Chapter (1967)
With the booming economy in the Dallas-Fort Worth area, our major management problems will center around rising maintenance costs, particularly in the cost of labor. Fortunately, there is full employment and a corresponding full occupancy of multi-family housing units. The problem of adjustment from a tenant's market to a landlord's market is a welcome one indeed. A minor problem will be in convincing all types of tenants on rental increases which are needed to cover these rising maintenance costs.

WILLIAM McAINSH, JR., CPM/Florida East Coast Chapter (1967)
The number of large projects planned for the Fort Lauderdale area in 1968 indicates a boom year if—and this is a big if—interest rates do not soar beyond reason and our acute labor shortage is alleviated. New apartment deliveries are even now running six weeks behind schedule.

ROBERT J. DEETER, CPM/South Florida Chapter (1968)
Our most urgent problem for 1968 will be that of safeguarding the owner's investment in older properties. The upswing of new construction and the continuing rise in cost of operations and supplies is gradually eating away at the owner's return on his investment. Also, we must keep our standard of services as high as we have in the past, if not higher, because tenants are now requiring more in the way of services. This means that we will not be able to cut our expenses drastically in order to compensate for the increase in cost, and due to the amount of this type of space on the market today, we cannot increase rental rates enough to cover increased cost of operations. However, we must remodel and modernize in order to hold those tenants we have and to attract new tenants. This will require re-educating the property owner as to what he can expect on his investment and also a greater cooperation than ever before between CPMs.
HUGH E. WRIGGELSWORTH, CPM/Indianapolis Chapter (1967)

One of the problems in this area for 1968 will be convincing the public of their need for qualified professional management people to handle their property. This will be attacked in two ways: 1) An increased amount of favorable publicity; 2) Additional qualified management people who we hope will obtain the CPM designation in the next year. Another difficulty is that of service calls for heating, ventilating and plumbing equipment for apartments and office buildings. Frequently these calls are not answered promptly and personnel are not always qualified to service the equipment when the call is answered. This is annoying to the tenants and creates excessive costs in operating the building. Some office buildings in this area are well over 20 years old and require extensive remodeling in order to stay competitive in today's market. Owners of these buildings may be forced to spend sums that in some cases may be more than the original cost of the building. We may be faced with the task of leasing these buildings in an "as is" condition at lower rents in order to keep them occupied. Management in many cases will give serious consideration to increased rentals because of increasing operating costs. Otherwise management's profit margin will be lower although there may be a more stable clientele. There is considerable concern over the increase in taxes and the recent increase in the Federal Reserve discount rate which is bound to tighten the money market.

ORVILLE L. BARNES, CPM/Inland Empire Chapter (1967)

The greatest problem which we face is the revamping of the downtown area of Spokane. While there is more building being planned within a year or two in the core of the city than has been built during the last 20 years, there is the problem of replacing the obsolete buildings with structures which are modern and desirable from the prospective tenants' point of view. Both the office tenants and the ground-floor tenants demand more sophisticated quarters than in the past. The movement of tenants from the downtown area has been stopped and parking facilities increased. However with the core of the business district composed of many buildings constructed just before or after the turn of the century, obsolescence is destroying their economic value. Many of these properties are being purchased for demolition and replaced by new buildings. This makes for high land costs which results in mainly institutional building.

GEORGE L. TOPPER, CPM/Greater Los Angeles Chapter (1967)

I believe we will be facing an ever-deepening problem of ghetto conditions and the need to do something about it. I believe that IREM can and should offer its professional services to the federal government to help plan, develop and manage urban renewal housing. We will accomplish a two-fold purpose by doing this; that is, a) help in the up-grading and management of slum dwellings; and b) provide the greatest amount of identification and recognition to the Institute in a way that would far exceed any amount of money that we may spend on institutional-type advertising.
STANLEY W. WINN, CPM/Louisiana-Mississippi Chapter (1968)
I see one major problem which we might have in this area and that is the minimum wage and hour law as it will affect our management clients in accordance with the recent Supreme Court ruling. Other than that, I can see no major problem except that of adding additional properties to our portfolio.

WILLIAM BRAUER, CPM/Milwaukee Chapter (1967)
The Milwaukee market remains strong in apartments, and buildings offering capable professional management and merchandising show good occupancy and relatively low turnover. Apartment construction, while still active, is feeling the results of the tight money market and demand is extremely high in better buildings. Office buildings in the downtown area are showing signs of continued demand even though there has been a great amount of new space put on the market... Milwaukee’s economy remains strong and growing. It is one of the more prosperous in the country and ranks high in living costs but still is extremely low in rental charges. The apartment industry must do much during 1968 to bring rental income in line with increased operating costs and taxes here. Though Milwaukee was the scene of racial disturbances last summer, there is little feeling that this racial unrest has hurt the market for real estate.

EARL A. TETTING, CPM/Minnesota Chapter (1967)
With the addition of over 250,000 sq. ft. of new office space coming on the market in 1968 plus the pressure on downtown office buildings of an equal amount of office and industrial complexes in the suburban areas, it is obvious that managers of older property will have to meet this challenge. Rapidly rising cost of labor in maintaining buildings, plus an ever increasing demand from current tenants for “Class A” treatment, means that property managers will have to take the time to analyze their operating costs now. Only by making our operating areas more efficient, as well as owners’ expenditures in “making present tenants happy,” can present high occupancy levels in older properties by maintained. The buildings that have not remodeled or are not planning to remodel will suffer.

MARTIN S. BERMAN, CPM/New England Chapter (1967)
Management problems in New England this year will not include excessive vacancies. Residential, commercial and industrial space is all greatly in demand and managers are directing their attention to improvement of net income. Real estate taxes in this part of the country are notoriously exorbitant and out of control. Managers must include involvement in government on local, state and national levels as part of their job to protect large real estate investments. The home owner has long been the “sacred cow” here and real estate investment property has always carried the full tax load while home owners have been protected. Perhaps this year will see a change in that practice.
HENRY C. TRESCH, CPM/New Jersey Chapter  (1967)
While some difficulties are expected from enactment of new air pollution control laws and adjustments arising out of extensive urban renewal and new housing programs, the principal concern of CPMs in 1968 is the maintenance of a reasonable net operating position in the face of mounting real estate taxes and payroll costs. Ultimately rental rates must reflect rising operating costs but a severe burden will be placed on management to successfully bridge the gap.

THEROLD E. BROWN, CPM/New Mexico Chapter  (1968)
Albuquerque has been designated as one of the model cities of the U.S. and has just begun an urban renewal program. Also, we have a rental leasing program which will start in January. With a combination of all these new factors, we expect the vacancy rate will decrease in the coming year. However, many new apartments are being built and another addition to house low-income families is expected to be built. We are very optimistic about 1968 since the past two years have been rather slow here.

VICTOR A. LALLI, CPM/Greater New York Chapter  (1967)
With the continuing volume of new construction in New York City, one of our biggest problems is finding qualified men to operate and maintain these new office and apartment structures. Advances in technology and the introduction on an almost universal basis of such features as central air-conditioning and automatic elevators demand much more knowledge than heretofore at both the supervisory and operating levels.

ARTHUR C. ANTONY, JR., CPM/Omaha Chapter  (1968)
The biggest problem will be vacancies due to the many new apartments built in 1967 and projected for 1968. It will take real merchandising to fill all the new buildings and especially the vacancies in older buildings created because of the availability of new apartments.

CHARLES KAHN, JR., CPM/Philadelphia Chapter  (1967)
During the forthcoming year everyone in real estate, and particularly in its management, will be faced with the same problems that the core of many urban areas will face—that of race relations. This can have a very severe effect on real estate values, particularly if proper respect and responsibility is not shown for the law enforcement agencies of our country. Property damage is not regarded in the same light as personal injury, nor should it be. However, as property managers we have the continuing responsibility for the maintenance and protection of real estate and the integrity of our employees. It is incumbent upon us to establish strict standards of conduct among employees. Dishonesty, vandalism or "cutting corners" should not be tolerated. It is also necessary for management offices
to plan together with key employees to establish procedures to protect property that is under their care and supervision. This, of course, should be discussed with the owners, but the best cure for urban ills is thoughtful prevention in advance.

GERALD W. KENNAWAY, CPM/Quebec Chapter (1968)
We feel that the very high cost of borrowing money and still further increases in operating expenses are the major problems facing our area. Mortgage money is certainly available for sound new developments but at rates exceeding eight percent. As a result, we expect a pause in the development of large properties and a slowdown in the sale of existing revenue-bearing older properties. Property owners will undoubtedly be faced with lower nets due to spiralling labor costs and ever increasing real estate taxes. Small rental increases will be obtainable from commercial space users and slightly higher increases from apartment tenants. Occupancy in commercial tenancies should be maintained at high levels and apartment vacancies will be minimal due to lack of construction and because of present housing shortage.

JOSEPH F. McFARLAND, CPM/St. Louis Chapter (1967)
Business as usual is the consensus of the St. Louis Chapter members. The biggest problem in our area will be the complete and full acceptance of open housing by property owners.

FREDERIC R. SILVEY, CPM/San Francisco Bay Area Chapter (1968)
I spend most of my time in commercial and multiple developments, and our biggest problem, as I see it, is going to be money, particularly in the financing of new projects. We have been experiencing a tightening market and anticipate it continuing through 1968.

WILLIAM C. CLARK, CPM/Houston Chapter (1967)
The nature of our problems has greatly changed in the last two years. Excess housing has given way to housing shortage. Any reasonably well maintained, properly priced apartment can be readily rented. There is a demand for modern, well located office space with adequate parking. The vacancies that plagued us in the past have disappeared. Now our problem is concerned with rising costs. Increased taxes, insurance, material and labor are greatly outstripping increases in rent. Thus, our greatest problem during the ensuing year will be to keep our costs on a parity with our income. This may be as hard to deal with as were the vacancies.
Devaluation of the British pound and its dramatic impact on the world investment markets cannot possibly exclude the activities in real estate where the lack of formal "exchange" eliminates the possibility of any immediate evaluation.

Real property investment is an important part of the total investment commitment in our economy and everything that affects that economy exerts strong and meaningful pressures on the real estate market even though the effects might be temporarily obscured.

The entire world is committed to inflation and there is little indication that the people of the world will accept the strong medicine to cure inflationary ills; and, consequently, we must adjust our economic metabolism to accept continuous erosion of the values as we have known them.

The past has taught us that the value of money has a direct effect on all real estate activity. A reduction in the value of the dollar has the almost immediate effect of an increase in the dollar value of real property. We must keep in mind that the expression of value in terms of dollars is merely a reference number and that the usefulness of real estate is not changed per se. Thus, it is logical to assume that the ownership of real estate has a decided advantage as a hedge against the attrition of inflation but within the boundaries of certain definite limitations.

So-called free money loses its purchasing power during periods of inflation while at the same time, real estate prices are increasing. This simply means that a declining number of investors are able to buy real estate unless adequate long-term financing is available. It also means that tenants must pay increased rentals to justify new prices and that customers must be capable of absorbing merchandise and services at higher costs. A vicious circle to be sure!

We can anticipate several things in this rather painful economic disturbance. Mortgage lenders will be increasingly reluctant to make long-term commitments at fixed interest rates and borrowers will find it increasingly difficult to adjust net incomes to absorb higher interest costs. Without going into the important and detailed discussions relative to long leases with or without escalation provisions, we must take into consideration the fact that consumer income lags well behind the declining purchasing power of the dollar. This suggests that most tenants cannot anticipate any business volumes (in dollars) which will immediately justify increases in rentals. At the same time, although subject to the same lag behind reduced value of the dollar, operating expenses will move upwards.

With these and many other economic forces at work, we might draw some realistic conclusions which will challenge our imaginations and cause us to make some fairly drastic adjustments in our concept of the real estate business.

More and more lending agencies will seek a "piece of the action" in financing investment properties. This is to say that as a bonus for lending substantial monies, they will require a percentage of equity interest in any realizable profit (either from operations or resale) above an agreed minimum. As unhappy as this might make the investor, there is much logic behind this process particularly in these inflationary times.

Escalator provisions in leases will become the rule rather than the exception and the "form" lease will eventually include such covenants. In commercial leases
with percentage provisions, the "recapture" clause will provide ownership with the opportunity to terminate a lease if tenant business volumes do not result in agreed rental increments above stated minimums. Long-term leases at fixed net rentals will become less attractive to ownership. Leases on residential properties will be either on a month-to-month basis or for short terms not exceeding three years.

The cost of single-family residences will continue to increase in all categories and conventional mortgage lenders will be much more attentive to credit ratings of mortgage obligees. Increased equities in conventionally financed homes will be required. FHA-insured and veterans loans will be used to stimulate home purchase and FNMA will become an increasingly important factor. The incidence of home sales will decrease slightly and the "used" home will be the most active area of trading.

We cannot contemplate any increase in real estate brokerage activity and we can only be hopeful that this activity will not decline from its present level. The number of licensees will diminish to the point where only the experienced, industrious and capable practitioner will remain and succeed. The days of the opportunist are gone and those of us who survive must use our full talents for a hard-earned prosperous future.

We must accept the fact that it is not the number of coins we have in our pockets that determines our wealth but that it is the value of those coins. The picture is not a pleasant one nor is it without hope. Our comfortable attractive economy can survive only if we are willing to endure the treatment to cure the sickness of our excesses. More and more we must buy only those things which we can pay for and contribute our small share to reversing the destructive trend in deficit financing. We must use every means at our collective and individual disposal to discourage waste and extravagance by our government as well as ourselves. We must be prepared to pay our share of taxes to reduce government deficits which have created the mirage of prosperity. We must recognize the rights of all people with whom we share the privilege of living in this democratic society. We must insist on the rigid maintenance of law and order for peace and tranquility within our borders. We must create the opportunities for gainful employment of all persons at all levels coupled with a demand that only the truly unfortunate become the beneficiaries of welfare. Our actions as well as our words must unequivocally support our honorable convictions—there is no other way!
IREM Open Sessions
from the Washington NAREB convention

Private Management of Public Housing
Management of Defaulted FHA Properties
Nonprofit Housing Demands
Professional Management

Put the Pazz in Your Promotion
Give Tenants Value, Not Gimmicks
Private Management of Public Housing

by Abner D. Silverman

Twenty-five years ago when I first addressed IREM, we had an inventory of 38,000,000 dwellings in this country; today we have 66,000,000. Twenty-five years ago we had a population of 155,000,000; today we have 200,000,000. Twenty-five years ago our gross national product was $158 billion; today it is $790 billion. Twenty-five years ago very few people had heard of Certified Property Manager; today both the individual and the organization is accredited. Over a quarter century you have done more than anyone to establish property management as a profession.

Finally, 25 years ago, the public and the private sectors of the home building and real estate industry, if not openly hostile, were at least distant. Today we have passed from a posture of mere coexistence to one of cooperation and active collaboration. This change has occurred in very recent years, and its greatest acceleration has come about in the last several years because of the President's determination to expand enormously the development of housing for low- and moderate-income families. He has stated that this goal could not be achieved without securing the support, the active participation, the recognized skill and genius of the private sector of the housing industry. Mr. Johnson recently declared, "What the government really does is only the beginning. Private efforts are not just essential to success, they are central to success."

Indeed, this coupling of public subsidy and private expertise is the foundation on which the administration and HUD Secretary Robert Weaver are building their programs to remake and improve remarkably the quality of urban society. Let us review together some of the new, principal devises that have been proposed by the administration in recent years and enacted by the Congress which are tangible evidence of public/private cooperation in housing.

A program of below-market interest rates, 3 percent direct mortgage loans to provide housing for the elderly and disabled has been enacted: the so-called 202 Program. To date $500,000,000 of such loan funds have been authorized by the Congress and it is expected that by 1969 32,000 dwellings will have been provided by private sponsors, with an additional 17,000 units in various stages of development. These sponsors are generally church groups, fraternal organizations, and other types of nonprofit corporations, sometimes managing directly, sometimes managing through the services of your organizations. These are the new type residential accommodations for moderate-income elderly and disabled.

A program for insuring loans at below market interest rates to provide housing for moderate-income families, supported by FNMA special assistance to assure the availability of money, was established in 1961. This is the very well-known and highly successful 221d3 Program of the FHA. Under this program, the FHA has issued commitments covering $1,060,000,000 of mortgages.

In 1965 rent supplements were authorized for 221d3 projects built at market interest rate mortgages—a supplement or subsidy large enough to reduce rents to the financial ability of residents whose incomes are at public housing level. In the same year, Congress authorized local housing authorities to lease existing privately-owned housing for the use of low-income families. Just as in conventional public housing, a federal annual contribution contract to the local housing authority makes up the difference between what a family can pay for rent and what the actual rent of the dwelling lease is. This so-called Section 23 leasing program provides a quick method of making housing available for low-income families. But it does more than that. It supports a soft private housing market, keeps the property on the tax rolls, and very often encourages private owners to bring properties up to code standards, thus helping the industry upgrade the quality of housing inventory.

Because there is much confusion between the two programs, let me distinguish between them:
In the rent supplement program, the rent supplement is paid by FHA with respect to new construction only. It's a device for increasing the inventory of housing that may be made available for low-income families. The family has to pay 25 percent of its income for rent and the subsidy can be as high as 70 percent of the approved rent. Roughly speaking, in high-cost areas, the maximum rent that FHA will provide or authorize for a 2-bedroom unit is $150 a month. Seventy percent of that is $105. That means it is conceivable that you could rent a $150 2-bedroom unit to a family that could only afford to pay $45 a month for rent.

In the private leasing program handled by the Housing Assistance Administration, only existing housing may be leased. The local housing authority has the same contribution that would have been paid to it had it built a regular conventional new housing program, to bridge the gap between the economic rent the owner wants for his dwelling or apartment and what the low-income family can pay. They are similar but they are different and the essential difference is that between supporting an existing market and creating a new inventory. But both deal with the same income group.

Also in 1965 a most ingenious new approach to getting low-income housing built more quickly and at a lower cost than ever before was developed. This was accomplished by employing the power and skill of private enterprise to do that which it does best, mainly build the housing and turn the key over to those who operate it. This approach, known as the "turnkey" process, works in the following way:

Local housing authorities contract with private developers, builders, or rehabilitators to buy upon completion housing that they will build or rehabilitate. Any member of the private building industry who has or can secure a site may propose to build a project in accordance with his own normal plans and specifications. If the price is right and the project meets acceptable design standards and local codes, the local authority with HUD approval may contract to buy it back. The builder is sure of his market. He has the incentive to build quickly to increase his profit and the public benefits because the supply of housing is increased more quickly and at a lower cost.

Our early experience with the turnkey process has shown that public housing can be built in half the time, sometimes saving two to three years and at a savings of 10 to 15 percent. Recently the Housing Assistance Administration streamlined the procedure to make turnkey construction more attractive to private developers and we have urged local housing authorities to convert construction of public housing to the turnkey process wherever and whenever possible.

Indeed, last month we conducted six regional meetings to acquaint the industry and housing authorities with the nature of the new program. More recently, the life insurance industry has joined in this effort to upgrade the quality of urban life and committed itself to invest $1 billion in housing and other urban improvement activities in the central cities: the slums, where new private investment has been almost nonexistent. In mid-August, based on the recommendation by Secretary Weaver and the President's committee on urban housing, headed by Edgar F. Kaiser, the President directed Weaver to stimulate private enterprise in the management as well as the building of public housing. We are now developing a private program in Washington, D.C., to try out this concept of private management of publicly subsidized housing. I hope that with this recital I have at least stimulated your curiosity as property managers and titilated your very sensitive pocketbook nerves to the fact that there are new opportunities for profitable extension of your activities as professionals to a new field of public/private cooperation in housing production and operation.

Let me establish the fact that this is not just conversation by citing the recent history of the local housing authority here
in Washington, D.C.—the National Capital Housing Authority. This authority has done the following:

It has an active 350-unit scattered site-leasing program under Section 23 described a moment earlier. Let me digress at this point to mention the fact that that program originated because of an experiment conducted in Washington, D.C., with the cooperation of the Washington Board of Realtors. Out of that successful experiment a program was enacted by Congress.

The housing authority purchased a 221d3 project in 1966. This facility had suffered severe vacancy losses and the housing authority converted a number of apartments into larger units to accommodate large families. This action saved the owner from a loss and contributed to the community by supplying 4- or 5-bedroom units which are desperately needed and are in extremely short supply.

It acquired through the turnkey process a 10-story elevator building and made 343 apartments available for elderly occupants. This was the first completed turnkey building in the nation. It has entered into a letter of intent—this is the virtual go-ahead signal for a developer—with another turnkey developer to buy 290 efficiency and 1-bedroom apartments and 61 4- and 5-bedroom apartments. This will be a combination 221d3 and low rent public housing project. The housing authority has also agreed to lease about 150 of the larger units of the 221d3 portion should there be any need to support the market. In effect 500 of the 1,200 units to be built will be made available in this development for very low income families by a combination of public and private cooperation.

These actions by the National Capital Housing Authority are a rather striking example of how a public subsidy and private skill can be combined for everyone’s benefit. In addition, the former National Training School site in northeast Washington, with its more than 300 acres of surplus federal land—300 acres of surplus federal land in the heart of the city, if you please—has been made available for the development of some 6,000 dwelling units. This site, known as the Ft. Lincoln Urban Renewal Project, will be a new town in town, with schools and community facilities and will share a very wide range of income groups. The NCHA is involved in the first component of this renewal plan—a 250-unit turnkey project which will adjoin a 150-unit 211d3 project.

Finally the NCHA and a prominent local real estate management organization are now actively working out a contract for managing both elderly and family units which will soon become available for occupancy.

I cite this example of the NCHA not to brag about local activity but to establish for you that I am talking about the real world, the world that should be of substantial interest to you. We in HUD, in the Housing Assistance Administration, have developed a set of guidelines for private management of housing for low-income families which will be issued shortly to our regional offices. We intend to experiment in several localities with this new concept so that out of this experience we and your fellow member organizations can improve the validity of this concept and develop viable agreements that can be applied generally.

These guidelines will be flexible: the allocation of functions will depend upon whether the local housing authority will transfer its entire program to private management or only one or two projects. If private management assumes the entire program, the management firm would logically assume all the duties performed by the local housing authority under public management. If only a part of the program is assumed, the local housing authority would have to be responsible for at least the selection of tenants to comply with civil rights legislation and the consolidation of accounts and reports.

Obviously in either case, the broker would be responsible for physical operation and maintenance and the collection of rents, the leasing of dwelling units to approved families, the handling of complaints and the other normal landlord and tenant duties. There would be limitations
on the broker's freedom of action because the management of publicly-owned projects involves compliance with special standards, state and federal regulations, particularly in the fields of labor laws, equal opportunity, re-examination of tenant eligibility and the provision of management-oriented social services.

The provision of social services will be a significant departure for nearly all private real estate management organizations. The goal in housing low-income families is to provide homes where both parents and children can outgrow their need for social services. This function as we see it encompasses four areas of activity: tenant organization and involvement, community services and activities, services to individuals and services to management. As we visualize the social service function, the private manager would negotiate with agencies for the establishment of services in the community building or in the immediate neighborhood of the dwellings. He would advise, encourage and assist tenants in the creation of a tenant organization. I can almost see the look of horror on your faces—I'll discuss that later.

The need to establish liaison between management and tenant organization exists so that each can play a responsible role in the development of the community; develop methods to facilitate the use of available services by the tenant; counsel with families who are unable to meet the conditions of occupancy and help them resolve their problems; conduct training sessions for the staff members so as to improve their understanding of low-income tenant problems and their ability to work with them in establishing the community. We have some very selfish motives in this new experiment. We know that we cannot increase the production of housing for low-income families without at the same time increasing the supply of skilled property managers.

One way to increase the supply of managers, of course, is to enlist the help of the private sector. By skilled property managers for this type of tenant plan, we need not only people who are experienced and expert in the technical and business aspects of property operation but those who know how to foster the economic and social advancement of the tenants. This requires the use of new and unfamiliar techniques to build citizenship by letting the residents participate in a meaningful way in decisions which affect their living conditions; by providing means through which grievances can be avoided or settled by processes of discussion and reasoning; and by providing opportunities for employment.

It also means learning how our system of social services works and which services are meaningful to the poor. It means learning wholly new ways of communicating with people—people who have different value standards than usual clients. Let me elaborate upon that in some detail:

My first job in the real estate business was with the old New York Title and Mortgage Co. I went to work there in 1929—I think you all know what happened in 1929. We took over, under assignment of rents, large numbers of New York apartment buildings. I had the fine title of assistant manager of one of their branch offices in upper Manhattan and the west Bronx—which is a high-class name for being rent collector and route man. We had a lot of people who decided they weren't going to pay rent—not to any capitalist organization like the New York Title and Mortgage Co. because we were responsible for the depression and why should they pay rent to the people who created the depression! They formed a
tenant organization and before you knew it there were an awful lot of people who joined the tenant union because the New Jerusalem was at hand—how to live in an apartment without paying rent.

They wanted to meet with our board of directors. Now this was before the New York Title and Mortgage Co. went bankrupt—we were just merely having difficulties. And our board of directors rarely talked to each other much less to the tenants. You didn’t walk into that inner sanctum without taking your shoes off and crawling on hands and knees trusting that they were in a good mood! Quite seriously, they were top-flight people of the business and financial world. So the answer came down that they’d be damned if they’d talk to these people—staff members were to see them individually, but there would be no collective bargaining between the New York Title and Mortgage Co. and groups of tenants. We had, I believe, a billion dollars worth of outstanding bonds that we had sold—you know the process. We would make mortgage loans and issue all guaranteed bonds to investors to the margin of, if I remember correctly, ½ or ¾ of 1 percent—that gave us our profit and helped support our title insurance business.

However, some of our tenants in the housing complexes decided the rents were too high and demanded them reduced. The title company refused to do so. The tenants organized and decided to have a rent strike.

We suddenly found out that we were running out of money. The city wanted its taxes paid. We had to pay operating expenses and our employees wanted their salaries. Consequently, before very long we started eviction action.

Well, you don’t evict 3,000 families in a housing complex. These families just weren’t going to pay rent until our board of directors met with their representatives in a collective agreement session. You recall that in 1934 there was legislation passed about collective bargaining. This was part of the ferment of the times.

The board of directors said no—they’d evict the families. Can you imagine evicting 3,000 families? No court in New York would handle it and we ended up doing business for the board of directors and the representatives of the tenant body. A collective agreement was worked out in order to secure some rent. So “never say never” about tenant organizations. They are inevitable when dealing with large concentrations of families who have grievances. The thing to do is recognize that they are inevitable and work with them.

We talk about meaningful decisions. And in a housing project there are meaningful decisions to be made in which tenants can participate. I’m not talking about turning over the management of a housing development or the determination of a technical question to a group of the tenants. This is really idiocy, and I don’t consider myself an idiot. But let me point out a couple of simple illustrations of the kinds of things that might be involved.

You’re going to paint the window frames—it’s a matter of preservation. You are persuaded that a pastel beige is just the right color to blend with the brick work and make the place look as attractive as can be. And you go ahead and paint. Or you could decide this is the kind of decision that doesn’t make a bit of difference if we choose the color or the tenant association chooses the color, and they want a bilious, nauseating green. Now as far as the preservation of the wood is concerned, it doesn’t matter what the color of the pigment is. Why not give them their choice? After all, you’re not going to be there except the few hours a day if you’re a route man or your agency happens to be on the premises; they’re going to be there 24 hours a day, seven days a week. Let them have their choice.

The playground equipment needs to be replaced; there’s a variety of choice. You talk to the tenant association and they want both a dangerous and highly expensive gadget. You want to provide certain other kinds of equipment. You play the ancient game of trade-offs with them and though they may be uneducated and poor,
they're not unintelligent. You say, "What you want costs thus and so; what I propose costs thus and so; take your choice. My advice is that you'd get more out of this." You reason. They see the wisdom of it and they accept. I've seen it actually applied. Again, I'm talking about the real not the fantasy world.

Now they have a lot of other grievances —low-income families do. You have regulations . . . why can't we have a pet? My child needs a puppy, some object of affection. Well, whether he should have a pet or not depends on what kind of housing development you're operating. Why shouldn't he have a pet? Why follow the old cow path of a regulation which is applied to a 15-story apartment house, with a highly dense child population with potential hazards, to a situation where the reason for the rule does not exist. . . . Why does the maintenance man have the right to walk into our dwelling any time of day or night without advance notice? Why is our apartment painted only once every six years?

Again, these are problems of communication . . . because to paint them every three years means to raise the rent . . . because we have to have right of access in case of danger or need to your dwelling unit—in case of a gas explosion, water leak, you mention it. You know these necessities but these are things these people don't understand.

Why must I pay for a broken window when I didn't break it? This is the pet peeve of some owners and managers of low-income families. The window is broken; no one knows how it happened unless the tenant can name the culprit who broke the window, so the tenant must pay for the damage. The theory behind it is this way you enormously expand the police force on the project and you teach the individual tenant how to become a homeowner. Because if a window gets broken in his own home, he pays for it. This is plain sheen nonsense! The real reason behind it is not to teach them to be home owners but an effort to cut down expenses. To the tenants it seems both unjust and an effort to get them to squeal on each other. Nobody likes to point a finger at somebody else and blow the whistle. So the policy doesn't work and it creates bitterness.

Why must I lose a half a day's pay to see the manager? Why can't the office stay open one night a week just as the stores do? And indeed, why not? Why can't you make it convenient to have communication between the tenant and the management? You gladly accept their rent, why not be equally glad to accept what they have on their minds. It may help you do a better job of operation . . . Why can't I put up a neat fence around my yard to protect my children and raise some flowers? And why doesn't your staff address me as Mr. or Mrs? That last one has a real message to those who come up out of slum areas in their search for dignity and independence. They're all small matters, these items, and all sources of friction and of opportunities in which there could be meaningful participation between the tenants as a group and the management to provide a better community.

Now this problem of communication is real. Let me cite just two more case histories of what good managers can do to create trouble for themselves because of the way in which they do it. In one case—this happened in the Bay Area of California—the local housing authority had permitted tenants to put up backyard fences if the tenants wished without any degree of standardization or control. As you can imagine, they were unsightly. The local housing authority decided they were unsightly; they discussed this with the tenants' council and that tenants' association had decided they were unsightly and that something ought to be done. But no action had been agreed upon.

The local community action agency was created and offered the housing authority the use of the neighborhood youth corps for useful public works. A light bulb lit in the manager's brain. Here was a chance to get free labor to do the job of cleaning up the backyards. . . . Why not take ad-
vantage of this to have the place beautified? He did so.

In a few days there appeared on the project site a truckload of boys under a maintenance supervisor all armed with picks and shovels and "operation backyard beautification" began. The housewives who were at home had not been told about this program saw their fences being destroyed, flowerbeds trampled upon, and they acted. They formed a living barricade to prevent any further destruction, they complained to the press, petitioned Congress, and the sound and fury still hasn't quieted down. About the only good thing you can say about the incident is that the tenants lost their apathy, one of the first steps in developing upward mobility. However, this method is not recommended.

The second case concerns another local housing authority—these are the agencies that have had the most experience in dealing with low-income families. This housing authority had been active for many years in this community, marshalling resources, providing on-site services and trying to do the best job possible to develop a good community and do a good job of project management—at least they thought so. The Office of Economic Opportunity gave a demonstration grant to the local university which had a school of social work to test the theory that the essential ingredient in helping the poor break out of poverty was to develop a mass cohesiveness and educate the poor into a realization that through group action they could develop political muscle which would force the local power structure to listen to their problems.

To do this, the university sent interviewers out to where the poor lived, to list their complaints and to suggest to them that in union there is strength. One of the places where the poor lived in that town was obviously the public housing project. One fine day the manager was told that strangers were talking to his tenants on his project asking what their complaints were about his management. Unfortunately, he lost his temper and had the interviewers arrested for trespassing on his property. The case, of course, was thrown out of court. The militant minority of the tenants who had real or fancied grievances were outraged. They demanded a meeting with the local housing authority. They complained about high rents, poor maintenance, excessive charges for services and everything else they could think of. The board of commissioners were hurt and bitter. For years without compensation they had sincerely been trying to help these families, and now a few malcontents had turned into mad dogs and were biting the hand that fed them. A controversy flared up. The mayor, a Republican, saw a Democratic plot. Letters were sent to the President, editorials were written and duly reproduced in The Congressional Record, and the situation is still tense. It has not quieted down.

What went wrong in these situations? Several things as I see it. Basically a failure of communication between tenants and management. An assumption that the management knew better than the tenants what was good for them—the Big Daddy approach. It doesn't work with children and it doesn't work in management either. Also an unwillingness to accept a feedback from tenants about the management's policy and practice. In short, there was an absence of respect for tenants and an over-abundant presence of self-righteous self-assurance.

An empathetic management is vital to the successful administration of housing...
low-income families, but empathy means much more than compassion, concern or pity. To all these attributes must be added respect, a desire to communicate, skill in providing opportunities, and real desire to let the tenants participate in decisions which affect their lives. This does not mean abandonment of the manager's responsibility or the transfer of the administrative authority to the tenant body. That would be stupid. It does mean showing that they are considered important people who need to be told not only what is going to happen, but why. We believe this is one of the most important aspects of housing management in the public interest since we believe one way to end the hostility and alienation of the poor is by convincing them that we are concerned with their human dignity and personal privacy and that we do not consider them different but a part of our society. In short, that we care.

If we can create a milieu which is not a separate enclave labeled "public housing project" but is a community of mixed low- and moderate-income groups managed in a way which does not identify the families as a public responsibility, we will have taken a giant step forward in the direction of making these families feel they are truly participants in our society. We are deeply concerned with improving the quality of our urban environment. We feel that you are similarly concerned. We hope we can count on your support in an experimental effort to find the right public/private mixture to do the job which will benefit you and the nation.

Abner D. Silverman is presently General Deputy of the Housing Assistance Administration of the Housing and Urban Development Department. Prior to this appointment, he was with the Public Housing Administration where he was assistant commissioner for management. In 1959 he was granted a Rockefeller Public Service Award by Princeton University, permitting him a sabbatical year to study housing programs and rehabilitation of problem families in Europe. Based on this study a monograph entitled The Administration of Publicly Owned Housing has been published by the U.S. Printing Office. Mr. Silverman has also had more than 10 years' experience in private housing management and real estate sales.

Management of FHA Defaulted Properties

by Carl A. Mayer, CPM

The word "management" as used by FHA as it relates to its repossessed property in our opinion doesn't mean quite what it implies . . . in somewhat like . . . remember Humpty Dumpty in Through the Looking Glass who said, "When I use a word, it means just what I choose it to mean—neither more, nor less"? Well, this is FHA and its repossessed property. It calls it management. I looked at a few dictionaries and "manage" is to handle, to conduct, manipulate, superintend, engineer, bring about, take charge of, direct, control in action or use—more important, management is the act, art or manner of managing, conducting or controlling the skillful use of means to accomplish a purpose collectively. As opposed to this you have "custody," and we submit that the FHA present "management" is not management but custodial and should be called such if it's going to be treated in the manner it is now treated. Under "custody" I find: charge (this is true), protection, care, keeping, guardianship, caretaker—this is in fact a better description of what those of you who have handled FHA repossessed property find that you do. There are opportunities—there are tremendous opportunities—we respectfully submit to FHA to change its "management" program to a management program. We suggest that if it is going to continue its present program, why not call it, frankly, a custodial program? Because under this you don't have to qualify as a manager, and a manager today is not
Nonprofit Housing Demands
Professional Management

by Joseph C. Murray, CPM

Professional management is certainly a word and term we often have heard in our business and it means different things to different people. For the office building specialist, it probably means combining the efforts, talent, business acumen and experience of his organization to match wits with an astute tenant who might be negotiating a long-term lease to be sure he gets the maximum use of space for the highest possible price and to operate the building at the lowest possible cost to affect the best net return. Strictly a business relationship.

The apartment professional has a different set of conditions and standards; instead of dealing with the vice president of a major corporation, he’s dealing with Mrs. housewife. Although the ultimate goal is the same—the greatest net return of investment to the owner. For many, many years we at IREM have been declaring the operation of income-producing real estate positively requires skilled professional management. Today I would like to add nonprofit housing as a field which demands professional property management. I know when the word nonprofit is mentioned, there are smiles that go around the audience. I’m sure all of us who are in the business of managing other people’s property have been accused of managing nonprofit properties—even though they weren’t intended that way. And the rest of us here are in the property management business for a profit and that often turns out to be nonprofit management. Again, it wasn’t planned that way. As a matter of fact, just before I came down here, the head of my firm went over the figures of last year for the property management department; he came over and saw that I was going to speak today on nonprofit management. With a very straight face, he said that he thought I was a real expert at this after having reviewed last year’s figures. We are all in the same boat.

But seriously, we’re talking about nonprofit housing in the newly emerging federally assisted housing developments sponsored by nonprofit associations—

qualified. You who have bid on FHA repossessed property in the states where you do not have licenses have found that there are barbers, beauty shop operators or what have you bidding on the “management” of these properties. And the choice of FHA is made on the basis of price. It gets almost as ridiculous as a case you find too often in the so-called management of single-family dwellings where the individuals who bid on it pay FHA to handle the property. Obviously, if all the rules set forth by FHA were abided by, nobody is going to pay for the privilege of so-called managing the property.

The larger properties, and FHA, and those in charge of the FHA repossessed properties will give you sincere lip service and they mean it—they say, “We want you CPMs, we want you AMOs and we sincerely hope you will bid on this,” but when it comes right down to the wire, they can’t do anything but open up the bids and accept the lowest bid. It doesn’t matter whether the person is qualified or not. There is no current means, nor has any effort been made to qualify the manager. We respectfully submit, and are purposefully stating this in Washington, we wish the same intelligence you heard in Mr. Silverman were applied by FHA. The men in charge there have this intelligence, but we wish it were applied to the FHA repossessed property program.

Carl A. Mayer, CPM, has been president of Theodore Mayer & Brother, Inc., in Cincinnati since 1956. He is a charter member of IREM and also a charter member of the Society of Industrial Realtors. He has served as president for both the Cincinnati chapter of IREM and the Cincinnati Real Estate Board.
churches, civic groups, foundations—and the program is more commonly known as the 221d3 program for middle-income tenants. This frequently turns out to be housing for large families who cannot afford market rents even if the housing were available which it is certainly not in this area. The program has gotten off to a rather slow start, as many new ideas do in housing, but there are signs that it is picking up momentum. Management problems are plaguing these projects all over the country, and I think that possibly there is too much emphasis placed on the qualification of the sponsor and the mechanics of getting the project built, and all the money problems in dealing with government red tape, etc. Because of this, management itself is hardly considered. And we in IREM certainly think it's at least equally as important as the rest of the package.

The experience in Washington appears to be better than in some parts of the country. I don't know why that is; but it may be that despite the pockets of poverty in some areas, Washington does seem to have a little better relationship between landlords and tenants than those I read about in other parts of the country.

Even though I'm reluctant to use the rather narrow guide of one project, it may help to discuss the experience we've had or we are having right now in our first entry into the 221d3 nonprofit management program. You may decide after I get through that you may want to try it; you may also suggest that I might need to go to the nearest psychiatrist for having tried it ourselves.

The project is known as the Lynda Poland Memorial Housing Project. It's a 331-unit garden-type development located at the southeastern edge of Washington. It consists of 17 percent 1-bedroom apartments, 83 percent 2-, 3- and 4-bedroom apartments. They are very attractively designed, centrally heated and air-conditioned and have a swimming pool and a community center. The rents are: 1-bedroom, $95-$98; 2-bedroom, $113-$116; 3-bedroom, $130-$133; 4-bedroom, $144. That includes all expenses, utilities included. These rents are about $20 to $45 below comparable rents for new housing in the Washington area.

The sponsor is one of Washington's well-known, respected builders and an owner of other apartment properties who built this as a memorial to his teenage daughter who died a few years ago. It is the first FHA case in the country, at least a nonprofit job, where the sponsor is also the building contractor. This helped to bring about these rather low rents. It came about because of his willingness to throw in his profit, and many of the subcontractors who do work on his other jobs put in their profits too to keep the construction costs down. In addition it has a 3-percent 40-year mortgage which doesn't hurt—that's a big part of the package. It has a constant of, perhaps, 4.2 instead of 8 or 9 percent on a conventional loan.

Initially there was a tremendous demand for the large apartments. A long waiting list developed by the time it was opened which was a little over a year ago. Although one of the sponsor's goals was to accommodate a racially balanced tenancy, in actual fact 95 percent of the applicants were Negro and 5 percent white. Particularly since Washington has a fair-housing law, it was just not practical to do anything about this racial mix, no matter how commendable the social objectives were.

During the initial rental and occupancy, one of the sponsor's relatives had experience in managing marginal properties performed quite satisfactorily in what we usually consider a most important part—renting—and not only renting but another difficult part, that of move-ins while the building is still under construction. But after a few months, it became apparent that renting ability and routine collection and management were not enough to stabilize this project and make a manageable community out of 500 adults and 800 children who lived there; particularly since many of the tenants had come from substandard housing and were experts in fighting the war against the landlord. Ordinary management just couldn't cope with the problems of rent collection, vandalism, tenant behavior and all the things that go with dealing with people used to fighting landlords and not taking care of property.

It so happened that the sponsor and a member of our organization happened to be on the board of directors of an association pledged to giving help in a low-income area, and since there was mutual interest this was the connection which brought the management to our firm. We took it over as of January 1967. Because we agreed to accept the management of
this on a nonprofit basis, which again is not too unusual, we did get two other large highrise buildings for management which we are managing at a profit, hopefully. We had a little extra incentive to manage this property and to give it the time and effort that 221d3 jobs take.

The first step, the selection of a property manager, we thought was a very important one. We selected a man about 32, a very industrious and ambitious person who doesn't like routine management. As soon as the job becomes routine, he becomes bored. He's the type that likes the challenge. He's had that challenge and he's still in there swinging. When we first took on the project, we had no idea how to go about it. We decided we had better get somebody with expertise in the social field and, again, through a connection made because of some interest in civic activities, we contacted the Washington Planning and Housing Association and asked for help. This association has perhaps been anti-landlord for the past 30 years, or 29 out of 30, and we felt that it was time to start working with them. They enjoyed the opportunity to do this, and they assigned their executive director to work with us and help us to communicate with the tenants in a language both of us could understand. I can honestly say this was the most important step we took in setting up our program in handling this nonprofit project. We found that the sponsor's objectives were most important and not very easy to live with. He had many general ideas, but it wasn't until we sat down together to work out the specific ideas that we realized how difficult a job it was going to be. The goals were such as this:

Large families were to have preference over small families in all cases. If you had two choices for an apartment, the larger family must get it.

There were to be no evictions, if at all preventable. He wanted a democratic management that Mr. Silverman has been talking about, with dialog between tenants and management. Remember, this is a very successful builder and developer of income-producing properties. He wanted a well-maintained property with grass and shrubbery and no broken windows. Fostering community pride, he wanted us wherever possible to help families in trouble and have plenty of activity to keep young and old busy. And of course he took for granted that we'd have to have a highly efficient management operation to keep expenses down and rents low. A rather difficult task, to say the least.

After a few confrontations with tenants, we realized that we had some major obstacles to overcome if we were going to be the do-gooders that this program called for. The obvious obstacles to overcome were first, the tenants' mistrust of any landlord and their unwillingness to accept this authority. Second was the skepticism that this was a nonprofit project—the tenants just didn't seem to buy this. They were paying rent, a lot of rent they thought, and this nonprofit business didn't sink in too well. Third, the hostility from neighboring projects was another obstacle we had to overcome. These people were getting much, much better housing than anyone else in the neighborhood and they were singled out as privileged characters by neighboring projects. Another obstacle was the long-standing theory that management should rule supreme and tenants have no right in getting involved in management decisions. That was our main obstacle. A final obstacle was how to cope with 800 young children and 500 young parents and in about 60 percent of the cases the father wasn't there—the mother or a single person running the house. Another thing we were constantly reminded of was the attitude of well-meaning critics who, I suppose, hoped it would be successful but nevertheless were under the impression that no matter what you did with these people they were going to tear the place down and make it a slum.

Several mass meetings were held with the tenants; as many as 175 showed up and I'd bet in any conventional project that many tenants would never show up. The purpose was to explain the type of housing they were occupying, to explain that the money wasn't going into the sponsor's pocket (who was up on the platform), that every nickel they saved was going to go back to them, that it was just like a co-op, it was a team effort. Believe me, it wasn't easy to sell. These mass meetings gave the tenants a chance to meet the property owner and the opportunity to meet us and the project employees. It also gave the tenants an opportunity to voice their complaints and desires and this was important in soliciting their cooperation. The meetings were first held with a great deal of fear and trepidation. I was very, very uncomfortable and I
think other people up on the stage were too, with 175 rather angry tenants—they had no reason to be angry but they were angry anyhow—facing us.

We did establish communications and they saw that we were willing. Tenant organization plans were drafted, a citizens' steering committee was organized and a nucleus for a tenant association was formed. During the few weeks after that every building—there were about 14 families in each building—elected a representative of that building who was to be responsible for and to represent all the tenants in that building. Committee members were named and many group meetings were held in apartments and basements, even in the rental office. Believe me, there wasn't any period of tranquility. They were fighting among themselves, one group wanted to take over another group... it just broke up into a number of splinter groups.

The first thing we knew the interest was starting to dwindle. What we thought was getting off to a good start looked like it was going to blow up in our faces and we wondered at that point whether we had helped to create a monster. We didn't know quite which way to turn. Obviously it needed somebody to bring it all together. Now I'm not speaking of the downtown management company. Our job in professional management is to recognize the problem and how to get it done, how to put your finger on it or the person to get the answers.

We realized a central authority was required to pull these groups together and we hired a social director, who was an experienced social worker, as an operating staff employee of the property and not as a member of the management staff. Within several weeks she brought them together. She did a marvelous job and we found that tenants were getting organized to a much greater degree. I think the property is enjoying the benefits of some of those tenants' efforts. Playrooms have been furnished, roving gangs of youths have been stopped or at least slowed down, property damage has certainly been diminished although it is higher than we like. Tenants' pride and interest in their property have improved and many tenants are participating in programs. I'll just read a couple of them: Teen dances, flute lessons, wedding receptions, pre-teen choir, newsletter meeting. They have flute lessons every day—must be quite popular. This is a rather extensive program running every day of the week which is good to keep them active and busy. Furthermore, we feel we're in control of the situation. It's a horrible feeling, and I know we all have felt it at one time or another, where the building is running us instead of us running the building. We do feel we have control of the situation.

I'd like to comment that just before Nov. 1, 1967, we called a meeting of the tenants to explain to them that their rent would have to be raised $3 to $6 a month. This again was a traumatic experience. As expected, several very vocal tenants demanded to know where all the money was going; they wanted to know how much I made, how much this man made, and how much all of us were getting in salaries and how much we were getting for management; all of which were facts we didn't feel they had the right to know. But they were not bashful about asking them. Some of the tenants express themselves quite well; they're quite articulate, educated many of them, and although not in the poverty class, they do have large families. While their income is not on the lowest of levels, it is not high enough to be considered anywhere near affluent. So while we call it a middle-income program that's a widely misunderstood word.

Before the night was over—I should mention we had bought a couple dozen brooms and mops and buckets and put them in the back of the room—we explained to them that a $3 increase was really only 10¢ a day and that we thought each one of them could help us save 10¢ a day if they would clean the halls, if their boys would cut the lawns, if they would shovel the snow, they could reduce the rent, cut them back the next time. Or if they got some volunteer lifeguards. We have a swimming pool in this place and it costs almost $5,000 a year to operate it. By putting it that way, we convinced the majority that they really did have a stake in keeping their rents down. That night many of the people walked away taking the brooms and buckets—we hoped to clean up the public halls and grounds!

If you do have the inclination to consider the management of nonprofit housing, be prepared to devote an unusual amount of time, energy and creative talent to the establishment of, first, the proper management program and a willingness to
work in an area unheard of several years ago, not to mention the necessity of running an efficient cost-cutting operation. If the project is under 100 units, I doubt that you can give it the attention it needs for the usual fee involved. I think FHA has got to allow a higher fee for the management—not the custodial work as Carl Mayer mentioned. We’re talking now about management, not just custodial work. They should allow the employment of an experienced social worker, either as a resident manager or assistant resident manager, whether the project is large or small. The extra cost is really small indeed, particularly if we are to obtain the social objectives Mr. Silverman has mentioned the federal government wants, and I think we all would like to see, in a community. Good management is essential to the success of any social risk housing and good management just isn’t purchased cheaply. But the net results count.

This is where professional management shows results because the professional has already demonstrated his competence in the field of physical property management and is conditioned by experience towards deeper involvement in matters directly related to management of this property and its residents. We’re certainly more deeply involved than we were five years ago without other social problems. By experience property managers become more deeply involved in problems related to property management every year.

In closing I can assure you that one of the best moves our firm has ever made has been becoming involved in a worthwhile undertaking such as the management of the Lynda Poland Memorial project. A cash profit may be little or nothing, but if we are able to make this new project a success, we will have made a sizeable contribution, we feel, towards the stability of real estate values in the neighborhood, towards an improvement in race relations, and towards the betterment of a city in which we are very, very fortunate to be in the real estate business. Frankly, we like our chances of success.

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Put Pizzazz In Your Apartment Promotion

by Charles Tucker

The things I’m going to talk about are my opinions, those of my firm and of the people we deal with. If you’re making money another way or doing something some way that you can tell me about, tell it to me . . . this is just the way we do it. Application of methods varies greatly everywhere and you have to put everything in perspective relative to this.

When we do advertising, we try to establish some very basic theories and then we put them into practice. The ads have to have some excitement and some sincerity as well as cleverness. And each ad has to have its own personality. We know, contrary to what you may think, that what you’re offering to the public just might not revolutionize the world. It might not be so perfect. So when we’re hired to sell apartments, rent apartments, sell buildings and homes, our job is to make people think that what you’re offering will make their lives a little better. We’re not above poking fun at the things you do, as some of our ads show. Nobody expects what you’re doing to be perfect. You know what they say about perfect people—it just doesn’t happen. We’re not above admitting it.

In this business of advertising we think the subject of creativity is a science and apropos of that we’ve devised a definition of the human brain: the human brain has several billion circuits; it can operate for several billion circuits; it can operate for four hours on the energy from a single peanut. It is completely mobile, it occupies less than a cubic foot of space, and it is produced by unskilled labor! We feel it’s a shame since it takes so little energy to use it that it isn’t used more often. Maybe the trouble is we’re feeding it too many peanuts. You have to use it and feed it better.

As for creativity being a science, let me
tell you something: not only is it a science but we charge for it. I'm not promoting me; I'm here to tell you what we do. In passing, I'm not here to defend other agencies. . . . When your agency sends you a bill, you're infamous for saying, "Why? A piece of paper; it's an ad, what did you do?" When you get 200 pounds of bricks or similar materials, you have to pay for them or construction stops. I know what those agency bills are for. I think price is important and I think you people ought to be prepared to spend. If you're going to ask advice, be prepared to pay for it.

Let's define creativity practically as the ability to do three things: the ability to develop alternatives; to select the best alternative; and to implement the selected alternative—to put it into action. We have five general rules for good advertising:

First, the primary requirement in advertising is to be clear. Now that means clear as to exactly what the proposition is. If you're not clear at a glance, nobody's going to read your ad, nobody's going to see it, nobody's going to listen to your radio commercial. Second, what is clear must also be important. The proposition you set forth has to have some value. Third, this proposition or promise has to have some personal appeal. It has to be beamed at its logical prospects—no one else matters. You have to know your market and go after it. I will stress in this short talk market, market, market. I want to know if the fellow renting from you wears a tweed suit, smokes a pipe, the dimensions of his wife, number of kids—I want to know everything. Then I know my target. Fourth, the distinction of good advertising expresses the personality of the advertiser. That means the promise is only as good as the maker—that's either you or your client. And fifth, a good advertisement demands action which means people will make a note to see your community. There's going to be 16 ads on the page and they're going to make sure they see your homes because the ad struck home.

Now if you do that, you're going to have a good ad. It will command attention; it won't be offensive. It will be reasonable but it will never be dull. Original but not self-conscious; imaginative but not misleading. A good ad will always be convincing and make people act.

Being convincing is so very important.

Relative to this, we have what we call Customer Commandments; these are important because we get involved with sales people. We like to think we have a total concept agency which is not to say we take it away from you people but because we travel around the country a lot, we bring back suggestions. If the broker, Realtor, builder involved like them, we use them. If you don't like them, don't use them. But the more you can churn out, the more chances you have.

1. The customer is the most important single factor in any business.
2. The customer is not dependent on you; you're dependent on the customer.
3. The customer is not an interruption in your work, but the heart, soul, and purpose of your work.
4. The customer counts on a favor from you when he walks in to sample—it's a privilege to serve him.
5. The customer is a partner in your business—at least just part and parcel of the business.
6. A customer is never a cold statistic, not to a builder certainly.
7. A customer is not someone with whom you match your wits or argue. A customer can be wrong but don't go out of your way to prove it.
8. A customer brings you his wants—fill them at the right price and right quality and the right time.
9. A customer rates the most courteous and attentive treatment you can give.
10. A lost customer is your costly liability. A satisfied customer is your most valuable asset.

There's a mistaken belief in many real estate circles that advertising doesn't mean too much—doesn't carry too much effect. We think this is pretty naive. People may select an area in which they want
to live—location, location, location, and I agree with you. Still in your location there are other jobs, there are other things happening. Your ad has to ferret out your market and make sure they come to you. You have to make that first impression; that’s the most important thing. Don’t have advertising that’s different for the sake of being different. I can’t stress that enough. Give your advertising a character of its own because of the market for which it is intended. In other words, be different because you are different, not just for the sake of it.

This business of knowing your market is most, most important. People ask me about market research from time to time because either your clients do it or you do it. Some people hire market researchers because they come in for a week and spend time with you, and a builder wants somebody to say, “Hey, it’s okay, you made the right decision.” He charges you $2,500 or $3,000 for the week and tells you go ahead and do it. If you have a big job, 4,000-5,000 units, get a man, somebody who can tell you. But the strange thing is if you call a man in your town that you’re friendly with, he’ll tell you what he thinks and you’ll find you know more about your area better than many market research firms. This business about a third party coming in and being totally objective is a lot of nonsense. You can get more with $20 to the mailman and $15 to the milkman. They know who’s moving in and out and how the jobs are going. They’re the ones to talk to.

You must have a total image once you determine your market. Do it for yourself and your community through your brochures, ads, signs, everything else available to you for merchandising. You can’t do this overnight. Creating a favorable image or lasting impression takes time. So if an ad runs Saturday and Sunday, and you don’t get 2,000 people out to see your sample, don’t panic. Run the ad again and again and again. Then when nothing happens, panic. Then you have problems. But don’t expect them the first week.

This business of consistency: I think it’s important to keep yourself before the public constantly because once your name’s established, you’ll find that people recognize your ad even if the logo is left out. We’ve tried it and it works. In fact, people will swear they’ve seen your ad on a week when it wasn’t there because you’ve already established this rapport. If you must relinquish size to establish a good campaign, I think a good agency will make a small ad, inch for inch, as good as a bigger one. Small space advertising can do a big selling job if it’s used properly. It can be used to promote special services, special highlights, sporting events, etc. We have some rules for small space advertising too:

1. Confine the copy to one idea or one theme.
2. Make the headline significant, crisp without excessive adjectives and adverbs; your headline is very important.
3. Add effective small illustrations for immediate impact and eye appeal. Use line drawings for clarity.
4. Use distinctive border treatment around the ad. Don’t use massive or intricate borders.
5. Make each small ad topical and timely; tie in for holidays, sporting events, community events, etc.

We definitely believe in teaser ads. If the job can be built and have 50 families move in the first day, that’s better than opening a sample and beginning your campaign that day. If you run the teaser ads and have a teaser campaign and get the people to pre-rent, you’re in great shape. That’s all found money. When these ads run two to three weeks prior to the official opening, the response can be great. Leads are important; you must get all those good leads. On your opening ads, people put in “Sneak preview, Opening,” etc. Fine, if you have a good agency, let them make the ad so that the banner like “Opening Today” can be removed and the ad can run again. Why throw out all that money and have to make new ads—it’s strictly a banner.
Second, your co-op funds that a lot of builders get from suppliers can be deceiving. A supplier might give you $30 if you put his logo in an ad. It will cost you $20 to add the logo and the artwork so what did you gain? $10. And you've already destroyed the esthetic value of the ad; leave his logo out.

The last thing I want to talk about concerning advertising is this; Don't dictate to your agency. Don't tell them what to do. If you're going to tell them what to do, then you do it, you don't need them. If you're an artist, layout man or copywriter, and you're satiating your ego by telling the agency how you want it—what do you need them for? Set up your own shop and take the 15 or 17 percent. I think that you, in hiring, should get someone who will take an interest in your job and who takes a certain pride in your success. If what you're doing is okay, it's like the guy who makes $60,000 a year—what's to say he can't make $80,000? I don't believe in this, that if what you're doing is okay, it's okay. If it's just okay with you then it's n.g. with us—that's how we operate.

I believe in radio. I think you ought to use it more than you are. I only say this in place of television because you can't afford television generally. Radio is fantastic. Remember cost. If your costs can do it, then go into radio.

Gimmicks can bring you a lot of people. You've got to make people think they're getting something for nothing. You're not giving away anything. Who's kidding who! You're not in the market to give something away. If you have something in your rent, it's got to be built-in. It's like renting something "everything included." I mean it's built in—you're giving away a free pool as opposed to the guy who says "Rent—$140 a month, Pool—$20 extra, Garage—$15," etc. I'd rather say rental includes everything. Charge more, psychologically it's better.

Don't put rents in the ad. I say get the prospect out. My theory is that you ought to be able to pick the market without stating the rent in your ads. They say that's pretty conceited but I think we can do it. I think the ad can say what's required. Why should I have a man come out and say, "I only want to spend $140 a month, not $180." If he's going to spend $140, my salesman is going to convince him of spending $180 because it's a better place to live. The ad will get him out. That's our belief. That's the way it's worked out with us.

One last thing. We don't hide bad things under the carpet and whatever is good we stress. You have to be humble about certain things, and the more you hide it the worse you are ... If we have only $350 units we say so and if you can't afford it, don't come out. If we're for swingers, we say we're for swingers. You don't sweep things under the carpet.

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Give Tenants Value—Not Gimmicks

by Henry G. Beaumont, CFM

After hearing Mr. Tucker, I can see why they do things differently in Washington than in Los Angeles. In Los Angeles we’re up to 75 percent occupancy! We have only a couple of pages of classified advertising of vacancies. I looked in the Washington Post yesterday because I understood they had 100 percent occupancy in Washington, D.C., and they only had seven pages of big ads! In Los Angeles we have good occupancy—our permanent tenants stay 90 days! We don’t have to seek quite as many tenants so we don’t get to spend as much money. We have to depend upon classified advertising in the newspaper and on brochures. We have found that with our limited amount of money we can spend for advertising, we have to hit four major areas, and we try to do just that.

We have found the tenant is interested in four major things. He wants good value; he’s interested in price. He wants to know that he’s getting the best space, the biggest apartment, the most luxurious apartment that he can afford for his dollar whether it happens to be $50 or $500. In our advertising we always seek the money first. We put the price right up on top of the ad because if we have an apartment that we rent for $100—a furnished single—we don’t want the manager bothered with a lot of people who expect to get something for $75 or $50; nor do we want to pull into this building people who are looking for a luxurious apartment for $250 because we know they won’t like it. We want somebody who’s looking for that particular class of apartment and then we want to provide the space as best we can in that particular value. I’m not going to go into cleanliness and merchandising and the appearance of the manager, etc., because this is not that type of lecture.

Secondly, we find the tenant wants safety. He wants to know that when he’s away at his office that you, the property manager who’s taking care of his property, have done everything possible to protect his belongings and his family who may be back at the apartment. He wants to be sure. It’s like the man who walked into the store to buy a present for his girlfriend and the clerk says she has just the thing—a perfume from Paris that costs $32 an ounce and is called “Perhaps.” The man said if he paid $32 an ounce for perfume, he’d want to be sure! Your tenant wants to be sure that you’re taking care of his property; he wants to be safe.

The third item he wants is service, courteous, efficient service. One of the interesting signs I saw the other day was in a store, a market where you help yourself. The sign said, “Courteous, Efficient Self-Service!” He wants courteous efficient service. If you’re going to include certain things in the advertised rent—if you’re advertising—this includes utilities, or maid service or heated swimming pool or this or that, he wants to know these things you’re offering him. He wants to know what the score is.

Not so long ago we opened a building and we advertised that rental included centralized air-conditioning. Much to our dismay we found out as we got into it the next week that it wasn’t—that it had individual air-conditioning units and the electricity which ran the units was on the tenants’ electric meter. We had a couple of deals that we had to go through with to include the electricity because we advertised it. But I can guarantee you the very next day the advertising was changed and didn’t include that. Because we advertised it that way, they expected to get it.

Lastly the tenant wants status. He wants to be able to feel that when a guest goes home after he’s been to his apartment he will say, “Bill must really be doing well; that’s a beautiful apartment.” Now he may be paying only $50 for a little dinky furnished single without a kitchen, what you call an efficiency apartment, but nevertheless he wants his friends whom he invites to his apartment to go away feeling that he is doing well. He wants to feel that what he buys with his dollar investment in rental housing will give him a status symbol among his friends that he’s doing well.

So in our advertising we try to convey
these four things. We try, number one, to stress the price, because we feel this is the number one thing the man's interested in. Number two, we try to stress in our advertising and our merchandising this item of safety at the building. The managers are instructed to stress the safety feature as they show the apartment. Of course in Los Angeles we operate all our buildings with resident managers; we do no renting from the central office.

In our advertising we want people to know what they get. If it has wall-to-wall carpeting, drapes, built-in refrigerator, air-conditioning, whatever we're giving them for their dollar, we want it listed right down there in line so it's easy to see.

And last we try to build our advertising into these status symbols. As I say, we're limited pretty much. We have tried radio a couple of times without much success. Probably this is because we didn't have enough money to spend and we couldn't continue it long enough. I think radio is a wonderful means of advertising but I believe that it has to have consistency.

In our town we opened a major office building about five years ago. It just so happened that a new radio station was coming to town called Extra Radio News. This is a 24-hour news station. You can't buy or open a new station in Los Angeles, however, and this particular entrepreneur had bought a station in Tijuana, Mexico. He relayed all the news from Los Angeles to Tijuana by telephone and broadcast it from the station back to Los Angeles. He wanted something to say "Extra Radio News" over Los Angeles. So it happened that the president of the company was a friend of our partner in the office building and we made a deal to trade space, half space at half rent in return for advertising this particular building. We have had a spot announcement every hour for 24 hours a day. This has been a major factor in the fact that the building is now approximately 95 percent occupied—this building is located in an area that has a lot of disadvantages as far as location is concerned. The radio advertisement mentions the Beaumont-Miller Co. as being the leasing and managing agent of the building so for five years, 24 hours a day, they've mentioned the Beaumont-Miller Co. They also mention the office building, and most people believe the station is located in that building and that's where they broadcast from. We don't dispel this idea.

The point is that this has been a major factor because for five years, every hour and every hour, constantly, this has been mentioned. It seems to me if you're going to use radio advertising you've got to have a budget large enough to have consistency over a number of spots every day and every day. Some companies can afford to spend the money that's necessary to do it. We have to do it either by classified advertising or by brochures.

We try to produce a brochure which gives a feeling of color, or if we don't have any more money, then at least a one-page flyer. At least we want them to see the thing we're advertising. If we have enough money to spend to give a feeling of luxury, then we try to make the brochure have that feeling. Practically every one we've produced simply tries to tell the whole story.

To me the important thing in advertising and merchandising apartments or office buildings, whatever the space is, is the fact that you have certain information that you want to get out to the people you believe will rent this apartment or office. If you're trying to sell location, price, or services, we believe the public wants four things: good value, safety, service and status. We feel if we can do that and get the brochures and the advertising to the right people then we'll get results.

Henry G. Beaumont, CPM, has been in the real estate business since 1927. Since 1936 he has had his own firm in Beverly Hills, Calif., which specializes in the sale and management of apartment houses, stores and office buildings, combined with investment counseling. He was national president of IREM in 1952 and is currently president of the Los Angeles Real Estate Board.
God, Man and the Condominium: Casualty Loss and Tort Liability

Fashioning an Insurance Program for the Condominium

by Patrick J. Rohan and Melvin A. Reskin

An insurance program for the condominium might take the variant forms of an exclusive franchise, integrated policies of individual unit owners, or nonintegrated policies in which each unit owner is free to pursue his own course with respect to coverage. An analysis of the desirability of these alternatives must resolve certain fundamental questions relating to the casualty insurance needs, actual or imagined, of the unit owners, mortgagees and association. Is their concern reducible to the single consideration of guaranteeing a sufficient dollar amount and breadth of coverage? Should the association allow the established mortgagor-mortgagee insurance pattern, based on a "standard mortgagee" or "loss payable" clause, to run its course? Conversely, should the unit owners, and perhaps their mortgagees, step out of the insurance picture in deference to the association's unique role and powers in the underlying areas of maintenance and repair? Is a mortgagee's traditional right to apply insurance proceeds to the mortgage debt, in lieu of repairs, justified by the risks he assumes as a lender, or is it merely a disguised option to recall a loan which was propitious when made but has become less so in the course of time? These inquiries must be examined both in terms of the requirements of a viable legal theory of general application and in the context of restrictions imposed by the local condominium statute, as supplemented by the individual project's declaration, by-laws and unit deed.

In this article an attempt is made to trace the difficulties inherent in the very nature of the condominium concept and those attributable to improper drafting or peculiarities of the law of insurance. In the interest of clarity, the relevant considerations have been grouped under four broad headings: (1) The emerging casualty insurance pattern, (2) Operation of standard insurance clauses, (3) Alternative casualty insurance programs and (4) Liability insurance coverage.

THE EMERGING CASUALTY INSURANCE PATTERN

THE LEGISLATIVE APPROACH

Early legislation and widely-circulated draft proposals in the condominium field served to standardize the statutory insurance provisions to such an extent that a national pattern is now clearly visible. A controlling influence was exerted by the Horizontal Property Act of Puerto Rico, enacted in 1958; the New York Unit Ownership Act, first formulated in 1962; and the FHA Model Statute for the Creation of Apartment Ownership with an accompanying commentary that appeared in 1962. The following passage from the New York statute is representative of the basic provision found in the legislation of most states:

"The board of managers shall, if required by the declaration, the by-laws or by a majority of the unit owners, insure the building against loss or damage by fire and such other hazards as shall be required, and shall give written notice of such insurance and of any change therein or termination thereof to each unit owner, without prejudice to the right of each unit owner to insure his own unit for his own benefit. The premiums for such insurance on the building shall be deemed common expenses, provided, however, that in charging the same to the unit owners consideration may be given to the higher pre-

*This article represents a condensation of chapters 10A and 11 of Rohan & Reskin, Condominium Law and Practice (Matthew Bender & Co., Inc.).
mium rates on some units than on others.”

In several jurisdictions, a master policy may be required by majority vote, without prejudice to each co-owner’s right to “insure his apartment on his own account and for his own benefit.” In six states and the District of Columbia, a first mortgagee is also authorized to petition the association to insure, whereupon a master policy must be purchased in the amount and coverage requested; Alaska and Washington extend this right to all mortgagees.

Major departures from the national pattern are found in Illinois and Missouri. Both mandate that the association shall insure to full replacement value the units and common elements; significantly, this requirement is not accompanied by a reservation of the unit owner’s right to insure. A master policy is required under the Ohio statute unless the declaration or by-laws provide otherwise; again, nothing is said with respect to individual policies. The Louisiana and New Jersey enabling acts stipulate that the association shall insure, but without prejudice to the unit owner. Four states relegate all insurance matters to the particular project’s declaration or by-laws. The cryptic Arizona and South Dakota measures merely direct the association to provide for “disposition of hazard insurance proceeds.” The statutes of Colorado, Iowa, and Virginia make no reference to the purchase of insurance.

It is difficult to state with certainty just what approach the enabling statutes embody with respect to the insurance prerogatives of the unit owner, mortgagee and association. If any theme is revealed, it appears to be one of permissive duplication of coverage. Most of the statutes contain a sentence that authorizes both association and unit owner insurance; no statute explicitly proscribes, nor authorizes, both association and unit owner insurance; no statute explicitly proscribes, nor authorizes a project declaration to proscribe, unit owner policies. Further, the qualification that procurement of a master policy is without prejudice to the co-owner’s right to insure his unit, when coupled with a failure to restrict the master policy to areas used in common, would indicate that both the owner and association may insure the individual’s interest.

When the possibility of such duplication was broached to attorneys active in the condominium field, some expressed the view that the unit owner insurance provision must read as either permitting such coverage only when the association has not purchased a master policy or as pertaining solely to personal property. It is extremely doubtful that either view can be supported. The legislative intendment appears rather clearly to be safeguarding of the unit holder’s ability to contract for coverage in his own right, the very opposite of the restriction suggested above. The language employed, the context in which it is found, and the absence of a need to reaffirm the right to insure personally all point in this direction. A construction that the enabling legislation impliedly deprives a fee owner of the ability to insure is highly improbable, particularly since the legislators could easily have incorporated this preference in an express statutory provision.

Although a few enactments give the mortgagee a voice in establishing the amount and breadth of association coverage, and hence may contain a hint that the lender is expected to forego a separate policy, most statutes omit all reference to the mortgagee’s role. Any one of several interpretations may explain their silence. Legislators may have acquiesced in the view that the mortgagee would succeed in the natural course of events to the rights of the unit owner-mortgageor. Again, mortgagee insurance may have been viewed largely as a matter of contract stipulation between borrower and lender and thus beyond the purview of an enabling condominium statute. Also, it is possible that mortgagee participation in the insurance field was deemed precluded by the association’s option to insure the entire project, receive the proceeds, and decide whether to repair or to sell after a casualty loss. The view that ultimately prevails will depend upon whether the legislation gives priority to a master policy or is merely designed to remove doubts concerning the
association’s insurable interest and the propriety of making premiums a common charge.

**The FHA Approach**

Since the current surge of interest in condominium stems directly from an amendment to the National Housing Act which authorized the Federal Housing Administration to insure unit mortgages, it is reasonable to assume that FHA requirements will play a key role in the formulation of many project declarations. By molding casualty insurance and other essential provisions to Administration specifications, the promoter assures that both FHA and conventional financing will be available to unit purchasers. The Model Statute for Creation of Apartment Ownership, prepared by the FHA as a guide in formulating local condominium statutes, contains an insurance provision that, unlike the New York statute, authorizes first mortgagees to request the association to insure. Although the model provision did contain the usual reservation of an individual’s right to insure, some confusion was generated by subsequent pronouncements that made it appear that a master casualty policy was essential if a project were to gain FHA approval.

A communication from the Cooperative and Special Programs Section of the Administration, however, indicates that the agency will not insist upon any one insurance format, but will look instead to the substance of what is proposed. Therefore, a coordinated plan of unit owner policies, for example, may be acceptable if the Federal Housing Commissioner and mortgagees concerned are satisfied with the soundness of its details.

Nevertheless, some indication that the master policy proposal is least likely to meet with objection may be found in the FHA Condominium Housing Insurance and Servicing Handbook, which provides in part:

> "Representatives of the insurance industry have suggested that the most practical method of handling the [casualty] problem will be a Multi-Peril type of policy covering the entire building (or buildings) rather than individual policies on each family unit. The policy would be issued to the assured [association] as trustee for all the unit owners as their respective interests shall appear. (Individual owners would not be precluded from obtaining additional insurance should they so desire).”

The quoted passage reveals that the Administration’s insurance recommendations do not differ significantly from those contained in most condominium statutes. Although this coincidence will have the salutary effect of facilitating FHA approvals, its corollary is that the FHA provisions suffer from the same limitations and ambiguities found in the enabling legislation.

**The Project Draftsman’s Approach**

The flexible, permissive provisions of the enabling legislation afford great leeway in fashioning a condominium’s insurance program; unfortunately, attorneys have not seized upon this opportunity to supply answers to questions left open by the legislatures. Instead, the declarations largely contain minutiae concerning the type and amount of insurance to be procured by the association. They usually specify fire and extended coverage, but they may also include such atypical requirements as boiler and elevator insurance or coverage for hurricanes or other perils. The declarations are worded in terms of insuring the venture to full insurable value or replacement cost rather than to a specified dollar amount. A periodic evaluation of the adequacy of the master policy is sometimes called for.

Some condominium instruments stipulate that the master policy must be placed with a company that has been in existence a designated number of years and is qualified to do business within the state. Several projects require an irrevocable designation of the association as agent of the owners for purposes of adjusting losses with the carrier on the master policy. Although the declarations frequently provide that the policy will be payable to the insured as trustee for the unit owners...
and their mortgagees, full operational control of the proceeds, absent a decision to de-register and sell the structure, is vested in the association.

A practice that appears to be gaining favor is that of naming an independent financial institution as insurance trustee. Under the terms of the declaration and master policy, the trustee is to receive the proceeds in the event the damage affects more than one unit (or one unit and the common elements) or the recovery exceeds a given amount, usually in the neighborhood of $5,000-$10,000. Where only a single unit is affected and the proceeds are less than the monetary figure at which the trustee would enter the picture, the moneys are payable to the association, its managing agent, or, in some cases, the affected unit owner to carry out the necessary repairs.

Failure of project draftsmen to go further and correlate the insurance activities of the unit owners, mortgagees, and association may merely reflect a carry-over of the imprecision of the enabling legislation. The ease with which the transition may be made from a single policy payable to the builder and building loan mortgagor to a master policy covering the entire venture (including units still held pending sale) is another key factor. Underlying the declaration, however, are doubts, widely held among draftsmen, about the wisdom or legality of having casualty policies in the hands of insureds other than the association.

As previously noted, some attorneys are of the opinion that the enabling legislation impliedly prohibits individual policies. Others have expressed the view that if the declaration contains a provision requiring the association to insure fully and if this document is recorded prior to conveyance of individual units, unit holders and their mortgagees may be deprived of their right to insure. Still others maintain that such policies will not eventuate as a practical matter because insurers would be reluctant to write unit coverage on a piecemeal basis. The scanty experience to date, however, indicates that carriers will not insist upon insuring all units or none; competition in the casualty field suggests also that coverage can readily be obtained elsewhere if particular companies refuse to insure isolated units.

Moreover, it is highly probable that the purchaser of a condominium unit will actively seek insurance if allowed to do so. The central attraction of the condominium to the purchaser is the concept of home ownership, albeit a home often surrounded on all sides, above and below, by other homes. Consequently, the very sales psychology relied upon to attract buyers will operate to suggest the need for, or satisfaction of having, a policy of insurance. Additional arguments in favor of individual policies are found at the title closing phase of the purchase transaction and upon resale of the unit. When a single mortgagee does not hold every mortgage, the lender may require coverage; if his insistence is overcome, the decision may be reversed on advice of counsel.

Having analyzed the local condominium statute in preparation for the contract signing, the attorney may recall that it preserves the purchaser's right to insure "his own unit, for his own benefit." The belief that the legislature would not have drafted such a provision unless there was some worthwhile purpose to be served by individual policies, the traditional faith of lawyers in insurance, and caution where a client's interest is concerned may cause the attorney to advise his client to insure. The same instruction may be forthcoming from the broker handling the insurance on
the purchaser's personal property or who perhaps wrote the insurance on the purchaser's recently sold real property. The growing popularity of the homeowner package policy, with its blurring of the distinctions between real and personal property subject matter, will also play a role in bringing about separate coverage.

OPERATION OF STANDARD INSURANCE CLAUSES

Insurers in the casualty field have not as yet tailored their contracts to fit the peculiar needs of the condominium. Uncertainty will prevail until the key clauses of the conventional policy are interpreted in the light of condominium requirements or until conventional language is revised to meet condominium needs. The following sections contain an analysis of the co-insurance, "no other insurance," subrogation, and conditional clauses and compare their effects upon the unit owner with their effects upon the association.

THE CO-INSURANCE CLAUSE

A co-insurance or "average" clause typically declares that if the property is not insured to 80 percent of its value, the company will not be liable for a greater portion of any loss than the ratio between the limit of liability established in the policy and the actual cash value of the premises when the loss occurs. Ordinarily, this clause will be of little consequence to the association because the declarations require full value or replacement cost insurance. Difficulties may be encountered, however, when unit owners install costly improvements in a luxury project or when an existing building is converted into a condominium and extensive remodeling is undertaken by the unit purchasers. The improvements may so increase the value of the property that the dollar coverage of the master policy does not equal 80 percent of the structure's worth. Should this occur, the association might seek relief either by demonstrating that the improvements did not become part of the real estate or by attempting to add the amount of insurance existing under individual policies (if any) to the master policy in order to satisfy the minimum requirement.

The insured unit owner runs a far greater risk of failing to comply with the co-insurance clause. If, for example, an individual purchased a small amount of coverage to supplement that of the association, a loss might result in the policyholder becoming a co-insurer. In this event, both the carrier's liability to its insured and responsibility in a proration with other carriers would be diminished. The unit owner may be able to avoid this result by minimizing the value of his interest or by asserting that his unit's (undivided) pro rata share of the master policy must be added to his personal insurance, for purposes of the co-insurance clause.

THE "NO OTHER INSURANCE" CLAUSE

Casualty policies frequently provide that the contract will be rendered void by acquisition of additional insurance without the insurer's permission. Would such a prohibition in the master policy be violated when a unit owner purchased a separate policy? Conversely, would the individual's coverage be affected by insurance procured by the association? The combination of a master and a unit policy would probably be held not to be violative of the "no other insurance" clause in a case arising under a condominium statute authorizing the association to insure without prejudice to the unit owner. If these policies were held to be "other insurance," the court would then have to decide whether
one survives or whether both the earlier and later policies fail. If one or more unit policies are avoided, it must also be determined whether mortgagees of the insureds are also barred from recovering.

**SUBROGATION RIGHTS**

The laissez faire approach to a condominium insurance program which allows numerous unit owner policies multiplies the risk that subrogation rights will be pursued by one of the various insurers; at the same time the physical interdependence of the units will make it difficult to confine damage from fires and flooding to the interior of one apartment. The unit owner, therefore, may be held responsible in tort to the association for damage to the interior of his apartment and to neighbors for damage to their apartments.

The failure of condominium statutes to distinguish between casualty losses that are attributable to an owner's carelessness and those that are not may lead some to conclude that liability for such tortious conduct is tacitly ruled out. It is more plausible to assume, however, that existing tort principles governing adjoining landowners should apply in the absence of an express statutory provision to the contrary. Some declarations provide that unit holders are exempt from liability to fellow owners for negligence arising out of ownership, maintenance and control of the common areas; but nothing is said with respect to casualty losses originating within an apartment (e.g., a fire started by a person smoking in bed). Similarly, the liability policy required by the declaration normally extends only to causes of action accruing in connection with ownership, maintenance and control of the common areas.

The status of subrogation rights of a condominium insurer is equally confused; enabling statutes are silent on the subject, and remarkably few declarations stipulate that the master policy must contain a provision whereby the insurer waives its subrogation rights with respect to negligent unit owners. The insurer's inclination to retain customer good will by voluntarily abandoning its rights under the subrogation clause cannot be relied upon to resolve this question in cases where a substantial loss is traceable to a financially sound or insured unit owner. Moreover, carriers have stepped up their exploitation of subrogation claims in the post-war years. Some spokesmen have noted that such prosecution increases the need, hence the demand, for additional insurance and thereby completes a successful business cycle.

Should the carrier on a master policy attempt to pursue subrogation rights, it would be met with the contention that the association purchased the casualty coverage for the benefit of all apartment owners, including the negligent one. If the association is thus viewed as the alter ego of the constituent owners, or as their agent for purposes of obtaining insurance, subrogation would be disallowed as tantamount to a casualty company recovering from its negligent insured. It is probable that the courts will adopt this viewpoint, especially where the enabling legislation declares that the master policy is to be written in the name of the association, as trustee.

Controlling the subrogation claims of a unit owner's carrier may prove more troublesome because the negligent party could hardly contend that his neighbor's casualty insurance was purchased for his benefit. Of course, this problem would be eliminated wherever the declaration contained a waiver of the right to recover for damage arising from the negligence of a fellow owner; the absence of a cause of action in the insured would prevent subrogation rights from arising in the carrier. Waivers found in existing condominium instruments do not go this far; however, a carrier on a mortgagee policy would not be bound even if they did. Moreover, waivers inter se must be approached with caution. Casualty policies invariably provide that the insurer may require an assignment of the insured's cause of action against the negligent party, and that interference with this right will invalidate the policy. Studies recently undertaken to de-
termine the best method of protecting a lessee from subrogation claims of the lessor's carrier reflect the consensus that a lease provision exempting the tenant from liability for negligence would release the landlord's casualty company. This suggests that in the case of the condominium, the association and unit owners may be jeopardizing their respective policies, or at least opening the door to litigation, by consenting to waivers.

WARRANTIES AND CONDITIONS

It is commonly stipulated that the insurer will be relieved of its obligation if certain provisions of the insurance contract are not met. Among the more flagrant breaches leading to this result are arson and violation of the "increase of hazard" provision; the less dramatic include non-payment of premiums and failure to report losses within the prescribed period. In obvious response to these conditions and warranties, condominium declarations prohibit the unit owner from engaging in any activity that would cause a termination of, or increase in premiums on, the master policy. Although this clause may be construed as a tacit recognition by the association that the carrier can avoid its responsibility if policy terms are violated by a unit owner, it is more probable that it seeks merely to ward off increased premiums and to guarantee, as far as possible, compliance with the insurer's wishes. The insurer will undoubtedly argue that since the building is occupied entirely by unit owners, the conditions annexed to the master policy would be meaningless if they did not apply to the association's constituent members.

THE ENTITY VS. AGGREGATE APPROACH

In the resolution of disputes under the proration, co-insurance, "no other insurance," subrogation, and forfeiture clauses, the association and the unit owners might consistently be deemed one and the same entity or different entities with conflicting interests. It is more probable, however, that ad hoc determinations will be based upon the objective which the clause at issue was designed to achieve, and the circumstances of the particular case. The parties might be equated for certain purposes, such as limiting recovery to actual damage to the structure, and dissociated for others, such as revolving disputes under the "no other insurance" clause. The latter approach might be rejected on the conceptual ground that it is logically indefensible to give different meanings to the same terms used in two clauses of the same insurance contract. Nevertheless, a sound result in specific cases may necessitate holding that the association is an entity for some purposes and a mere aggregation of unit owners for others.

ALTERNATIVE CASUALTY INSURANCE PROGRAMS

The many complications stemming from haphazard duplication of coverage indicate that draftsmen ignore, rather than solve, the condominium's casualty insurance problems when they fail to consider the viewpoint (and probable course of conduct) of the unit owner and his mortgagee. This oversimplified approach engenders needless uncertainty and subjects the master policy to the possibility of proration and other hazards. Without prior revision of the declaration, a post-casualty attempt to remedy the situation will only extend to disposition of proceeds; it will not reach the underlying evils of interacting insurance contracts and duplication of premium payments. Ensuing disputes may disrupt community harmony, lead to protracted litigation, and delay the restoration of the building. Clearly the matter cannot be entrusted to case by case development but should be resolved by revising the existing insurance program.

The principal modifications most frequently recommended include the elimination of either master or unit policies, or the mandatory use of a single insurer or mortgagee. Each proposal will be considered in turn.

PROSCRIPTION OF UNIT OWNER POLICIES

A ban on individual casualty policies
could take one of several forms that range from a declaration provision declaring such contracts to be null and void to an assignment of all rights thereunder to the association. Some condominium ventures have prescribed unit owner policies; even if valid, however, the wisdom of this measure is open to serious question. Although it safeguards the association's coverage from proration and eliminates interacting policies, it frustrates the legitimate objectives of the unit owner. He is prevented from insuring the excess value of his interest over the share of the master policy allocable to it. The right to insure permanent improvements and fixtures is rendered doubtful; if these installations become part of the realty by accession, the association presumably would be obliged to increase its insurance and distribute the additional cost over the entire membership. In the event of a loss, it is unclear whether the proceeds attributable to these items would be payable to the affected owner, or to all unit owners in accordance with the ratio established in the declaration.

Nor does the elimination of individual policies resolve the issue of the mortgagee's option to pre-empt proceeds beyond implying that this right will not attach to the master policy. This may induce lenders to resist condominium loan applications, or to require separate coverage on their security with the premium ultimately being paid by the mortgagors.

**COORDINATED UNIT OWNER POLICIES**

A number of projects in Puerto Rico have employed multiple unit owner policies, in lieu of a master policy; consideration is also being given to this plan in Hawaii. The individual insurance contracts are integrated by a declaration provision that specifies the coverage each owner must carry and a procedure for periodically filing proof of compliance with the association. Although flexibility is achieved to the extent that a unit owner may voluntarily raise his insurance, multiplication of carriers correspondingly increases the loss adjustment, subrogation, and other problems discussed earlier in connection with overlapping policies. The guaranteed source of repair funds and economy of the master policy are also sacrificed. Additional machinery would be required to enable the association to adjust losses, assemble proceeds, and eliminate the mortgagees' option to pre-empt the recovery. If repairs were entrusted to the several insureds, a single owner could impede restoration of the entire structure. Lastly, inadequate repairs, unpaid contractors or an absconding owner would necessitate use of reserves (or a special assessment) for interim financing, and, ultimately, foreclosure of the offending owner's interest.

**USE OF A SINGLE INSURER OR MORTGAGEE**

The association can simplify and harmonize procedures for casualty loss adjustment by requiring unit owners to place their policies with the carrier underwriting its own insurance. If, in addition, it directs that each unit purchaser finance through an exclusive mortgagee, it provides the basis for a unity of its financial and management interests and those of the mortgagee. Such a program would reduce the mortgagee's concern for the protection offered by individual policies and, should a casualty loss occur, encourage him to forego exercise of his right to apply insurance proceeds to outstanding loans. However, in a number of jurisdictions, the compulsory character of the program may give rise to an "unfair insurance practice" charge against the
carrier and a monopolistic practices charge against the favored mortgagee. Moreover, the interests of the prospective unit purchaser may prove to be inconsistent with the requirements of the program if he wishes to pay cash for the unit, if the lender rejects a loan application approved by a competitor, or if the lender offers him less attractive terms than those prevailing in the local money market. The most significant defect of this program is its failure to meet the difficulties posed by overlapping master and unit policies.

Revision and Expansion of the Master Policy

In the authors’ view, most of the difficulties of existing insurance programs can be remedied by a more comprehensive master policy that is better adapted to the insurance requirements of the unit owner, mortgagee, and association. The ease of administration, security and economy of the group policy favor its retention. Placing the venture’s entire casualty insurance with a single company will also supply the bargaining power needed to obtain policy terms tailored to the condominium’s needs and to eliminate troublesome conditions.

Accordingly, it is suggested that the existing insurance program be amended (1) To permit unit owners to acquire supplementary coverage within the framework of the master policy; (2) To delineate the relationship between contracts of insurance entered into by the association and by other insureds; and (3) To remedy existing deficiencies in the declaration and master policy.

Initially, the declaration should require issuance of sub-policies specifying the portion of the master policy earmarked for each owner’s interest. A precedent for such an allocation is the current practice of insuring widely separated buildings under a blanket casualty policy; a lender holding a mortgage on any one structure receives a certificate or endorsement noting the aliquot share of the blanket insurance permanently allotted to his security. Condominium sub-policies would inform the unit owner of the exact coverage in effect on his interest and facilitate purchase of any additional insurance he may deem necessary. For example, an individual owner might be authorized to request an increase in the protection allocated to him for coverage of intra-apartment improvements with the additional premiums being added solely to his cost; he could also be given the option of adding a rider covering the cost of emergency shelter. Sub-policies should further stipulate that, until the carrier furnishes notice and a grace period to the mortgagee, the latter’s coverage is neither jeopardized by the conduct of the mortgagor, association, or other unit owners nor cancelled for non-payment of premiums. This would spare the lender the inconvenience of acting as a middleman on the mortgagor’s monthly payments to the association and obviate the need for periodic checks upon the master policy’s existence and premium payment status.

The question of the mortgagee’s option to pre-empt proceeds may be more difficult to resolve. That this prerogative is highly valued even by institutional lenders that rarely, if ever, exercise it, is reflected in the repeated failure of passage of bills designed to eliminate it. The condominium is unique, however, because exercise of this right by a single lender may adversely affect every unit owner in the project. Nor is the option an unmixed blessing for mortgagees, since a chain reaction may be set off by one of their number signifying an intention to withdraw by way of the insurance proceeds route. Given the case of a condominium insured under a master policy, the main question is whether a mortgagee should be permitted to require an additional policy in order to retain this option. A categorical answer cannot be given without some indication of the effect remedial legislation would have upon the availability of condominium financing.

It may be possible to compromise by adopting the Solomon-like solution con-
should stipulate that in no event is the association's coverage brought into contribution with insurance purchased by unit owners or their mortgagees. Although it may be more difficult to obtain, the association should also insist upon a concession that the conduct of any one or more unit owners will not constitute grounds for avoiding liability under the master policy. Similarly, a "no other insurance" clause in the master policy should exclude unit owner policies from consideration.

(2) Loss Adjustment. Exclusive authority to adjust losses under the community's insurance should be vested in the association or its representative. In addition, provisions of the declaration that unduly complicate loss adjustment should be eliminated, including those that charge excess repair costs on an intra-apartment loss to the owner of the damaged unit; assess such repair costs only against "directly affected" owners; and vary the disposition of insurance proceeds, depending upon whether the loss is strictly intra-apartment, or affects more than one unit (or one unit and the common elements).

(3) Control of Insurance Proceeds. The insurance trustee device offers the best means of securing the master policy's proceeds from creditors and preventing dissipation of repair funds. The use of a single general contractor and direct billing to the association or insurance trustee are advisable. While each owner should be permitted to oversee redecoration of his unit, his control should not extend to preliminary structural repairs or contractor selection and payment.

(4) Post-casualty Monthly Assessments. A noticeable deficiency in condominium instruments currently in effect is the failure to provide relief from monthly assessments while a unit is uninhabitable. Since

In revising the condominium's casualty insurance program to meet the remaining problems outlined in this article, the following specific recommendations should receive attention:

(1) Proration and Forfeiture Provision. Both the declaration and master policy should stipulate that in no event is the

tained in the Strata Titles legislation of New South Wales. Under its terms, a unit owner is permitted to supplement the association's coverage by purchasing a casualty policy which will pay his mortgagee the amount of the policy, or the unpaid mortgage principal, or the actual loss, whichever is less. In return, the carrier receives an assignment of the mortgage, or if the proceeds do not equal the outstanding principal, a sub-mortgage in an amount equal to the sum paid the mortgagee. Draftsmen of this plan looked upon it as a measure which "aims to remove the dangers inherent in doubled insurance by a species of subrogation of the insurer to the mortgagee's rights." This solution also safeguards the master policy because the mortgagee's insurance does not affect the association's ability to recover in full.

The carrier on the condominium's master policy would no doubt welcome such a plan, in view of the additional premiums it would bring. Since this insurer is already obligated to restore the structure (or pay its equivalent in proceeds), no additional outlay would be required where mortgagees routinely consented to restoration, or the association voted to dissolve the venture. Moreover, a request that the carrier take over an outstanding mortgage would result only in a loss of the difference, if any, between the interest rate on the mortgage loan and the return that would have been earned by investing elsewhere.

In revising the condominium's casualty insurance program to meet the remaining problems outlined in this article, the following specific recommendations should receive attention:

(1) Proration and Forfeiture Provision. Both the declaration and master policy should stipulate that in no event is the
fixed costs, for example, taxes, will not abate and maintenance outlays may well increase during this period, the association may be unable to write them off. It should be possible, however, to recoup them under a rider on the master policy patterned after “use and occupancy” insurance.

(5) Subrogation. All insurance contracts should be required either to contain a waiver of subrogation with respect to the association, its employees, unit owners and members of their household or to name these parties as additional insureds. If the declaration itself contains waivers, appropriate indorsements should be procured signifying the carriers’ approval. Finally, unit purchasers should be notified that the association’s liability policy merely covers causes of action growing out of ownership, maintenance and control of the common areas. Since a comprehensive, group liability policy does not appear to be feasible at the present time, each unit owner should be required to procure an individual policy covering intra-apartment liability.

(6) Co-insurance. The declaration should require unit owners to notify the association of all improvements exceeding a specified dollar amount in value. An alternative proposal is that the master policy contain a stipulation that the structure’s value for co-insurance purposes shall only include improvements installed by the association. Further, an annual of biennial insurance review that includes an appraisal of the structure by a representative of the carrier writing the master policy should be mandatory. Although the appraiser’s pre-casualty estimate would not be binding on the carrier, it is doubtful that the insurer would contest its accuracy after a loss.

(7) Filing of Individual Policies. It would be advisable to require filing of individual policies with the association or its representative within 30 days after purchase of the insurance (excluding policies restricted to personal property). This would facilitate a prompt, pre-casualty review of their contents and elimination of potential conflicts with the master policy.

(8) Correlation of the Repair Options of the Association and Insurer. Although seldom exercised, the New York Standard Fire Policy does give the insurer an option to restore the premises in lieu of making a cash payment to the insured. A conflict may arise if the insurer elects to take advantage of this option and the association votes to de-register and sell the structure. Similarly, the insurer may question whether the association may recover replacement cost in the event the constituent members determine not to refurbish the building. These questions should be resolved by means of a rider to the master policy. It is probable that the carrier will agree to abide by the association’s determination on the question of repair or de-registration; where no sale is intended, however, the insurer will no doubt insist upon having the option to restore in lieu of a cash payment to the insured.

Next issue: the concluding part of this comprehensive survey of condominium insurance will deal with liability coverage.

FOOTNOTES

1. An insurance brokerage firm which has been active in the condominium field since 1958 has prepared an analysis of the factors favoring adoption of a master policy program in lieu of multiple unit policies for all the insurance needs of the condominium. See Factors Favoring Master Policy for All Condominium Insurance Needs, Office Memorandum of Batchelder & McMahan, Inc., New York City, Jan. 1964:

1. Broader coverage would be available for the following reasons:
   a. Larger bulk of premium enables specific filings and custom design of coverages by specialized underwriters, whereas small isolated parts of risk would not provide a sufficient premium base to support overhead of custom design, or claim cost of commonly excluded but desirable coverage.
   b. Owners in condominium can enjoy the benefit of “Waiver of Subrogation” to relieve them of such personal loss exposure.
   c. Adequate limits of coverage can be obtained.
d. Individually uninsurable risks often become collectively insurable.

2. Lower cost can be achieved for the following reasons:

a. A single underwriting company and servicing broker or agent has a single transaction in bulk, in contrast to many small transactions which are repetitive of each other, and the overhead costs are thus understandably lower.

b. Consolidation of entire risk provides a more valid statistical base on which the underwriters can apply a loss or probable loss rating formula and therefore charge the premiums necessary for the particular exposure. When divided into small units, the insurance companies will rate the individual units as they are channelled into general rating units and little individual rating consideration can be given.

c. The need for contractual liability and "hold harmless" agreements is greatly reduced by having a single insurance carrier on the whole condominium. This is the same principle general contractors use under the so-called "wrap up" plans.

d. Loss abatement measures can be arranged and financed by combined action, whereas individuals would not be able to function in concert efficiently or to absorb individually such costs. The cost of such loss abatement measures as fire engineering services and liability safety engineering services can be absorbed by the insuring company on larger risks. Installation of certain protective equipment can produce premium reduction which will amortize the cost of such equipment.

e. Minimum premium charges on coverage subdivisions are avoided.

f. Deductibles can be effectively and economically employed.

g. Economical deferred premium payment plans become available.

"See National Bureau of Casualty Underwriters, General Liability Division, Circular to Member Companies, Aug. 5, 1963: "The general liability rating committee has considered the question of classification and rating of condominiums and has concluded that they should be handled in the same manner as cooperatives. Thus, in the case of a condominium apartment house, the premium for insuring the liability of the owners of the condominium, e.g., the condominium committee [association], should be determined by applying the rates for the apartment house classification, Code # 105, to the entire area of the building as defined in the owners', landlords' and tenants' liability manual and not merely to the total of the areas used in common by all occupants. Such coverage may include the interest of the individual occupants but only for their liability as co-owners of a portion of the premises. The liability of each occupant with respect to the apartment of which he is the sole owner is considered to be a separate risk which may be insured under comprehensive personal liability or homeowners policies or through use of the owners', landlords' and tenants classification for apartments—occupied by one family for residence purposes exclusively, Code # 338."

It would be impractical to have the community bear the burden of an individual's liability coverage relating to a summer cottage, the acts of his minor children and family pets, or torts committed in the course of his trade or profession. See Landis, "All Risks Insurance," 1951 Ins. L. J. 709.

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New Products

WHEN REQUESTING INFORMATION, PLEASE REFER TO KEY NUMBER
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1-1 WATER COOLERS
General Electric has introduced a line of semi-recessed water coolers with a "package" refrigeration system designed for quick removal for maintenance. Re-connection of the water lines makes it possible to keep the unit operating as a fountain while the refrigeration sys-

tem is being serviced. The coolers come in a variety of exterior finishes to complement prevalent color schemes. The water cooler extends 9 ½" into the aisle; models come in 8- and 12-gph capacities as well as models without the refrigeration cycle for use as a fountain only.

1-2 LOADING DOCK
A four-page catalog describing Insta-Dok, an adjustable loading dock, has been published by its makers. It illustrates such features as its elevating mechanism, a one-cylinder hydraulic pump system which can raise the plat-
forme to a height of 58". When not in use, the platform is designed to become part of the usable floor space. Working surface is 8' wide by 34' in length. The Insta-Dok has a steel bridge-type construction and an electric motor activates the hydraulic system. Safety features include automatically positioned ramp curbs and a no-drop check valve.

1-3 WINDOWS BULLETIN
A recent issue of "Stainless Steel in Architecture" is devoted to a comprehensive study of windows. The 12-page publication contains a fillable four-page technical center section devoted to architectural detail drawings of different stainless windows. The other pages are devoted to actual installations of windows in hospitals, office towers, libraries and other buildings. It shows new designs in detention windows, center-pivot windows, double-pane blind-enclosing windows as well as standard types. Copies are offered by the Committee of Stainless Steel Producers, American Iron and Steel Institute.

1-4 SMOKE INDICATOR
A solid-state photo-electric smoke indicator for use in steam generating plants and incinerators has been announced by Photomation, Inc. Model TSD-1 is designed to provide increased sensitivity to give full scale meter display of smoke range from 0 to 40 percent or No. 2 Ringlemann. Manufacturer claims stability of readings with line voltage variations from 100 to 130 volts AC and temperature range from -20 to +50 degrees Centigrade. Controls allow instrument to be used on smoke passages from 2' to 30' in width. Terminals pro-
vide for remote indication, recording, alarm, signals, and reset switch.

1-5 VINYL-COATED TILE
The Conwed Corp. has introduced its Lo-Tone vinyl coated ceiling tile and board and other products for commercial and residential construction and re-
modeling. The vinyl-coated surfaces aid in keeping ceilings free of dust and dirt accumulation, particularly around air diffusers, and permit cleaning with a sponge or cloth. The surface is sealed and static free. The Lo-Tone line is available in several designs which combine acoustical and flame-resistance re-
requirements.

1-6 CARPET AID CHART
A Carpet-Aid Chart telling how to re-
move spots and stains from carpets
is being offered by the Eureka Williams Co. Designed as a “housekeeper’s helper,” the chart advises maintenance personnel on methods for removing 27 different spots and stains. It explains the step-by-step procedure for removing stains caused by food, beverages, grease, makeup, nail polish and unknown substances, using solutions that are accessible in any housekeeping department.

1-7 MASONRY COATING
A siliconized transparent coating for masonry buildings has been announced by Pace Products, Inc. Called Oasis, the colorless formula saturates porous brick, concrete blocks, poured concrete and stucco and seals them against water penetration that can cause damage to interior paint, plaster, and woodwork, manufacturer claims. Oasis is applied in one coat with brush or conventional low-pressure spray at a rate of 200 sq. ft. per gallon on masonry of normal porosity; on more porous materials, rate is 100 sq. ft. per gallon. The coating dries in 20 minutes, according to manufacturer, and is available in one and five gallon steel pails.

1-8 WALL WASHING KIT
A wall washing kit is now being marketed by Geerpres Wringer, Inc., manufacturers of floor cleaning equipment and related accessories. The #95 Kit includes a two-piece metal wall washing tool with oven-baked enamel finish and vinyl handgrip, two dust mops, three foam drip arrestors, rubber magnetic pressure pads and basket insert for the mop wringer. The wall washing tool may be disassembled to cut handle length in half when working in confined area.

1-9 WALLPAPER REMOVER
Warren Pressure Rollers has announced its “Perf-A-Roller” which is designed to perforate wallpaper and force water behind it to soften paste, permitting large sheets to be peeled off in minutes. Perf-A-Roller is designed to work without damage to walls where paper is layer-on-layer, painted over, or plastic coated. One dip of the unit in warm

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2100 S. NUCLEAR DRIVE, DES PLAINES, ILLINOIS (A suburb of Chicago)

1-10 CORROSION PREVENTIVE
A line of water treatment chemicals for use in cooling tower systems has been announced by W. E. Zimmie, Inc. Marketed under the name Zimmite, the products are designed to prevent corrosion by laying down a protective film of the cathodic type which does not form pitting. This film cleans algae and slime from pipes and condenser tubes along with corrosion deposits. Zimmite scale prevention properties are based on chelating agent complexes. The products are available in 5-, 15-, 30- and 55-gallon drums, and the company offers optional testing equipment which measures Zimmite treatment levels, pH, and chlorides for bleed-off control. Also available is a line of automatic continuous feeding equipment.

1-11 MAKE-UP AIR HEATERS
Janitrol has announced the redesign of the Series 79 Make-Up Air Heaters, making units available as bottom discharge as well as front horizontal discharge. The heaters feature “Fire-Eye” flame detectors, a transistorized system designed to eliminate problems of dirt and moisture. The units achieve a turn-down ratio of 35 to 1. A minimum fire of 2.7 degrees to a maximum fire-producing 95 to 100 degrees temperature rise is available without additional
equipment. The bottom discharge units of the Series 79 feature a hinged access door with quarter-turn, lock-type handles and automotive type locks. All units have an optional room thermostat and remote control panel.

1-12 WALL PANELING
Armstrong Cork Co. has introduced its Sturbridge design in wall paneling, which gives a rough-textured, weathered barnboard effect. Patterned after samples of weathered barn planks, the design characteristics of the panel include wide groove spacing and randomness of graining and knotholes. Sturbridge is manufactured in 5/16" thickness and comes in panels measuring 4' x 8' and in red and gray colorings.

1-13 EXPANDING CEMENT
Wedjrok Expansion Cement, designed to wedge itself in concrete or other masonry, is available from the Metalcrete Manufacturing Co. It holds anchor bolts, posts, rods, railings, partitions, machines and equipment of all types firmly and its ability to expand aids in repairing cracks in masonry walls and floors. It forms a patch that wedges itself into the surrounding masonry and, manufacturer claims, sets within an hour's time. Wedjrok is mixed with water and poured in place on horizontal surfaces or pressed into position on vertical surfaces.

1-14 BACTERICIDAL CLEANER
Lab Automated Chemicals Corp. has introduced a bactericidal cleaning complex, "Lab One Plus." The concentrated cleaner, disinfectant, deodorizer is made for use in hospitals, nursing homes, etc. Lab One Plus is designed to strip away bacteria-protecting soil films by penetrating, dissolving, and lifting this film to produce aseptic environmental conditions in one maintenance operation.

1-15 POWER SWEEPER
The Advance Floor Machine Co. has introduced a 3-hp Roamer power vacuum sweeper designed to remove litter including paper, broken glass, lawn trimmings, wood chips and metal shavings. The intake housing, constructed of steel, cleans a 26" swath on each pass. It has a swing-over handle that reduces the length of the machine for transporting or storage, reversible front casters for use on irregular floors and lawns, and an enlarged impeller system for increased vacuum suction. Safety features include safety deflector, Corten steel blower housing, and a large collector bag with snap-lock fastener and screen window vent. Weight of the machine is 87 pounds.

1-16 MAGNETIC THRESHOLD
A magnetic threshold which seals gaps between doors and thresholds at entrances against weather and dust has been developed by the Michaels Art Bronze Co. A Magnetic Astragal applied to the door bottom is designed to respond to a magnetized vinyl strip provided in an aluminum or stainless steel threshold. The Astragal remains magnetically stowed, clear of the threshold, except when the door is fully closed. Then magnetic action seals the door. Location of the threshold magnetized strip can allow for variation in door and astragal positioning.

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VOLUME 33, NUMBER 1, JANUARY-FEBRUARY, 1968
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Property management is the dynamic area that touches anyone associated with the practice of real estate in any manner: broker, banker, appraiser, insurance officer, estate administrator, owner and counselor. The aims of the IREM courses are to provide the manager or real estate executive in these fields with practical knowledge and tested skills assisting him in his efforts to maintain property at its highest and best use. The real estate economy is flexible; to keep up with it the IREM courses have changed too. Read about the newly-developed courses and select the one that best serves your needs.

COURSE I
PRACTICAL METHODS FOR SUCCESSFUL PROPERTY MANAGEMENT

Designed for those already practicing management, the course student learns to identify the two major areas of property administration: "strategic" and "operating." The "operating" phase deals with rent collection, purchasing, bookkeeping, contracts, maintenance, repair, leasing and similar fact-of-life management necessities for efficient operation. But that's only a part of professional management. "Strategic" management is concerned with what, when and where to buy and sell; highest and best use of property—when to modernize, convert, rehabilitate, raze. "Strategic" choices determine value of property and represent the ultimate service that can be rendered by property management.

These two vital areas are covered in reading assignments, lectures and group discussions. The reading material includes a specially-prepared lecture supplement which will act as a lasting reference book for the student, together with a classified book of forms actually in use through the real estate management profession. 30 points toward admission to CPM membership will be granted for successful completion of Course I and a passing grade on the examination. Successful completion of the Course I examination is a requisite for Institute membership.

Limited to 90 participants. Tuition: $195.00.

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Participation in the courses and successful completion of the various courses, examinations and projects earn for the participant merit points toward membership in the Institute of Real Estate Management and its professional designation, Certified Property Manager.

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March 10–16 Los Angeles The Ambassador
May 19–25 New York The Biltmore
Sept. 15–21 Dallas Sheraton-Dallas
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Course II
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June 23–29 Memphis Holiday-Inn Rivermont
October 20–26 San Diego Del Coronado

Course III
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June 12–15 Chicago The Ambassador West
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**COURSE II**
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The subject of defining strategic problems of a property and development of the individual's judgment and skill in solving these problems is the function of Course II. Therefore, this course has as its prerequisite satisfactory completion of Course I, or the equivalent in training and experience.

Varied types of investment property are studied, including residential and commercial. Specially prepared workbooks and problem books are supplied to participants to assist them in developing practical workable feasibility studies and management surveys. Analysis includes management, valuation, market research, cash flow projections, financing and the economics of alternates, all of which are oriented to active real estate practice. An invaluable sample feasibility study and management survey is also given to the student which can be used as a long-term reference source.

Through lectures, reading and group discussions, assisted by experienced faculty, the student will learn to solve the many practical problems presented in the course. The examination will test the student not on his memory, but on how well he is able to solve the realistic problems presented.

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Limited to 90 participants. Tuition: $195.00.

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Teaching and perfecting the technique of preparing the all-important management survey is the prime function of Course III, truly the graduate course of the Institute's educational program. Completion of Courses I and II or equivalent experience and training are the prerequisites for Course III. This program of study applies the case study method to the analytical process and the preparation of the survey. First hand data-collecting experience is provided through a personal visit to an actual building—commercial, residential or shopping center. Full data concerning the property, the immediate area and the general region are supplied. In the overall skill-practice and education experience of the participant the individual's problem-defining and solving faculties are tested and improved through group discussion in which fellow professionals and national management experts take part.

The participant cannot help but benefit from learning objectives of the management survey, report preparation methods; application of market, neighborhood and regional data; site inspections of the property, neighborhood and comparables; identification of major problems and alternate solutions; economic analyses; writing the final report.

Attendance at the course and submittal of a satisfactorily written survey earn 20 points toward the Institute membership.

Limited to 60 participants. Tuition: $160.00.

FOR MORE INFORMATION AND AN APPLICATION WRITE TO

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155 East Superior Street • Chicago, Illinois 60611
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The real estate practitioner who believes that property management is little more than collecting rent is living in the past. We hope he isn’t beyond help, but we realize that while our book, *The Real Estate Management Department*, may produce a wonderful revolution in some offices, it can’t work miracles. What it can do, however, is provide you with a step-by-step, “how to do it” procedure when you find that you must or should set up a real estate management department. The cost is only $6.50.

Did you know that a properly operating management department in a brokerage office is a real source of benefit to the broker in ways other than the tangible management fees? Are you aware of benefits available to the client whose property is placed under the care of a professional manager? Your office can’t really offer complete real estate service to the public unless you are grounded in this subject.

After you decide to set up a management department to augment your present services, will you be aware of the ethical responsibilities of the manager and the tested objectives and policies of the well-run management business? A “no” to any of these questions shows a need for the professional education available to you at modest cost—$6.50—in *The Real Estate Management Department*.

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