

Lease Formats

After you've been managing rentals for a while you realize that there is **more than one way to structure a lease. Managers do not structure leases the same way** but it takes some time in the business to figure that out.

When most agents decide to do some leasing (or management) they reach into their state association forms drawer and find a management agreement and lease and for several years believe that this is the way everybody does it. After a few years in the business we all discover **there are other ways to structure leases and some are better than others.** This document is designed to take the mystery out of the question “am I structuring my lease the best way” and lay out the different lease structures. Managers should conscientiously (and with some forethought) select the lease format that fits their model instead of just accepting what their state association forms committee offers.

There are at least four different leasing formats.

The drivers of these strategies are twofold.

1. **Who is making the promises to the tenant** in the lease?
2. **Who's signing the lease** for the owner and manager?

If you'll keep these two drivers in mind, you'll find it easier to get your head around these different strategies.

Note: It is human nature to defend the way YOU do leasing (or anything else for that matter). We all tend to defend the way we do something today because we're convinced that it's probably the best way after all. I often hear managers sneer or berate the way the other guy structures their lease because they are convinced their way is the best way (or at least my state association forms are the best ... right?). You should resist this tendency because what you're doing today may not be what you do tomorrow. We have dozens of managers that started with our state association forms (which tend to use one lease structure) and change to another structure after they've figured out **there are better alternatives. Some lease strategies are actually safer and more profitable than others. Some are more efficient and more scalable than others.** So, as you go through this document hold your conclusions until you get the entire picture. You may change your mind.

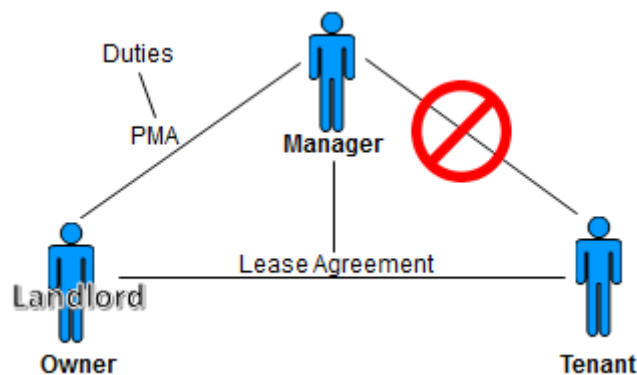
Remember our drivers? **Who makes the promises to the tenant and who signs for whom?** Let's start by identifying the two Styles using the first driver (who is making the promises to the tenant).

The first style we'll call the “Broker Style” as that's the style the real estate sales community promotes. The Broker Style is how the state association of realtors forms committees structure their property management documents as they do in a sales contract. In a sales contract the owner signs as seller, the buyer signs and buyer and the

agent signs as listing or selling agent. The sales contract is between the buyer and seller with the agent signing as a 3rd party, facilitator or scribe. Since most state association of realtors form committees are staffed by the very best sales brokers in the state, they naturally create documents from their thought processes and experience. So, most new managers grab their state association of realtors documents and Voilà, the owner of the property signs the lease as the Landlord (making promises to the tenant) with the agent/manager signing as a 3rd party; assisting the Landlord in fulfilling their promises to the tenant. **The one making the promises to the tenant in the lease is the owner.** The owner/Landlord promises to make repairs, keep the home in habitable condition and make sure the home is safe for the tenant.

Across the country **this is the most common lease structure** for new managers; primarily because new managers default to their state associations for documents in the early stages of their practice.

If you diagram this relationship it would look like this.



The owner signs a PMA with the agent who locates a tenant. The owner signs the lease (making promises to the tenant) and the agent/manager signs as the owner's assistant/agent.

There are three signature variations (who signs the lease) to this Broker Style.

Variation #1: The owner signs the lease as Landlord and the agent/manager signs as the owner's assistant (Agent or Manager) as described above. So, when it's time to sign the lease, the manager tracks down the owner and gets them to execute the lease. Generally this isn't difficult (with digital signature systems in place) unless the owner is on a fishing trip, in the hospital, on a cruise or on a flight to Australia. Sometimes locating the owner delays the signing and stagnates the process. Managers often get frustrated with this SLOW process so they gravitate to variation #2.

Variation #2: The agent/manager gets authority from the owner to sign the lease for the owner so they don't have to track him/her down when a lease needs to be signed. Agents typically get that authority in the management agreement (PMA) and it comes in different forms such as a Limited Power of Attorney (LPOA), Attorney in Fact (AIF), or Agent. In other words, to speed up the lease signing process, and not have to wait on the

owner, the agent is given the authority to sign the lease for the owner. The signature lines look like this.

Landlord

X Oscar R. Owner (you sign the owner's name as it appears in the deed records or on the PMA)

by Mary M. Manager his AIF (or LPOA or Agent) Under the owner's signature line you must sign YOUR name and identify your authority to sign the owner's name (ie POA, AIF or Agent).

Then the manager signs for the management company like this:

Perfect Property Manager LLC

By: X Mary M. Manager

it's Managing Member (or Broker or Agent or Authorized Agent) however your authority is derived from the real estate company or broker to sign on behalf of the management company. Every time you sign for another (person or entity) YOU MUST identify your authority, POA, AIF, Agent, Manager, Member, President, etc.

When using this strategy the owner is still making the promises to the tenant but the agent is executing the lease on behalf of the owner under some authority given them in the PMA.

Variation #3 is relatively new on the scene. In this structure the **agent/manager never signs the lease.** The owner signs (making the promises to the tenant) and the manager is identified in the lease as an assistant to the owner (maybe as Manager or Agent), but the agent never signs the lease. Some managers (usually brokerage firms doing management as a sideline) think that **by not signing the lease, they are less likely to be named in a legal action initiated by the tenant.** This is really strange (and maybe even dangerous) but some attempt to escape the often toxic landlord tenant relationship by not being a signatory on the lease. (we cover some of the liability challenges regarding this style in another training venue).

So, there are three signature variations of this Broker Style. In all three variations THE OWNER IS MAKING THE PROMISES TO THE TENANT AND THE AGENT/MANAGER IS SIMPLY ASSISTING THE OWNER IN FULFILLING THOSE PROMISES. One variation has the owner signing for themselves, one has the agent signing for the owner, and the last one the agent doesn't sign at all.

Now for the second style. Remember our second drivers: who makes the promises to the tenant and who signs the lease? In the second style the manager leases to the tenant, makes the promises to the tenant in the lease and the owner isn't a party to the lease.

When we diagram this style it looks like this.



In this style the owner executes the PMA with the agent/manager (authorizing the manager to lease the property on his behalf), then hides in the bunker with the other Coronels (far behind the battle lines), while the agent/manager executes the lease with the tenant and manages under some authority given to them by the owner in the PMA. In this style **the owner is not making promises to the tenant nor or they signing the lease. The lease is between the manager and the tenant so the manager alone signs the lease and not the owner.**

Our first 10 years in the business we used the Broker Style (as that's what our state association produced) and constantly struggled trying to keep the owner out of the day-to-day issues with the property and tenant. After 10 years of this wrestling match (and pages of special stipulations) we converted to the Manager Style and have been happier (and a lot more profitable) ever since. There are dozens of managers, Georgia and elsewhere, that have adopted this style and use our documents. We've discovered over the years that there are hundreds of managers using this style across the country. They may not call it the Manager Style but they (not the owner) make the promises to the tenant and execute the lease with the tenant. **The owner isn't a party to the lease and the manager is in control** (with limits defined in the PMA). The Manager, the person with the most training and experience managing rentals (and least emotions about the issues) is in the driver's seat managing the property.

So, to summarize our findings we have two styles and a total of 4 lease variations.

We are convinced, after managing over 2000 properties using the Manager Style for 25 years, that there is greater freedom for the manager, fewer hassles, less litigation and more profit with the Manager Style. Our attorney Monica Gilroy has been a fan of this style for many years and argues **it's much safer for the manager** than the Broker Style for many reasons. The Manager Style is also much more scalable (if growth is a goal). We articulate the decreased liability issues in another training video.

Before you decide how your property management agreement should read, you must **decide which lease style (and signature variation) is right for you.** Your management agreement document defines this so **you can't do a customized management agreement or lease until you settle this issue.**

So, which style and variation is right for you? Because we (Crown Realty & Management) experienced both of these styles we have a strong preference to the Manager Style but recognize that different managers have different opinions on this issue

so we support both. If we are helping you craft a PMA and lease, **we'll do it the way you want**. We just want you to understand the differences, risks and benefits of both.

This document was not intended to address the difference in these styles from the standpoint of scalability, profitability and risk of litigation (we've done that in another video) so you'll have to watch another video to work through those issues. We have dozens of manager's video testimonies on our website that have made the same discoveries we did, transitioned to the Manager Style and would never go back to what they started with as a new manager. We even have permission from some to give you their name and emails if you want to talk to others who wrestled through this transition. Also, we've never seen managers reverse this process and go back to the Broker Style once they made the transition.

Final Note

We see managers starting with the Broker Style (with the owner signing the lease) because most managers start with their state association forms. After trying to manage this way most managers figure out that they are **cumbersome, clunky and defeats speed and efficiency; two of the primary ingredients of scalability**. Once you grow to 50 or 100 properties you begin to realize the Broker Style works fine for smaller companies but doesn't work so well for larger companies. The conclusion is, if your plan is to stay small and just manage a few dozen properties, you might just stay where you are. If on the other hand you'd like to grow it up, develop a profitable and scalable business, and manage a hundred (or several hundred) doors, moving to the Manager Style is really worth investigating.

Final Final Note.

We also noticed that many managers practice the Manager Style (making lots of decisions for the owner) even though their management agreement doesn't accommodate it. Over time we all tend to drift to what works best as we throw ourselves into our businesses without looking back to see if our management agreement facilitates it. We're finding more and more managers adopt the Manager Style PMA and lease because it fits what they are already doing in the day-to-day operation of the business.

Final Final Final Note (I promise)

Remember my initial comments about not sneering at the folks that do it differently than you do? This is time to remember that exhortation. Good managers do this differently so be gracious when you're on this topic with colleagues because you don't need to make this a decisive Issue. It's not a right-wrong issue but rather a preference based on current knowledge of the issues, experience and understanding of the options.

The next video (or document) you might want to study is *How is the Manager Style easier, safer and more profitable than the Broker Style?* You'll find it here >>

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