



**307 S. Lincoln Ave.
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Property Management Information Packet

What is property management?

Property Management is the handling of the day to day operations required to maintain the financial and physical well-being of real-estate.

Who can manage property?

In Illinois, only a licensed real estate professional (including leasing agents) or the owner of a property can legally manage a property. The property manager acts as the agent of the owner and is required to act in the best interest of the owner at all times.

Background Information:

1st Alliance Real Estate is located at 307 S. Lincoln in O'Fallon, IL. Our doors opened to the public in early 2003. We specialize in the management and sales of residential real estate, including: houses, condos, duplexes, and multi-family apartment complexes. We strive to offer all the services needed to support our real-estate investor clients.



Tom James, the president and Broker of 1st Alliance, has been investing in real estate since 1996 and has been advising clients on real estate investing since 2002. He has an undergraduate degree in Computer Science and a Master's Degree in Business Administration (MBA). He specializes in working with investors in all aspects of buying, selling, and managing multi-family property.

Kristen James, our Office Manager, has an undergraduate degree from SMS and is a licensed Realtor. She oversees all activities in our office at 307 S. Lincoln Ave in O'Fallon. She takes care of all of the office tasks for all of the property we manage. She deals directly with tenants on a daily basis and is familiar with the day to day goings-on with all of our properties.

Overview of this packet

This packet is a synopsis of the activities involved in managing property. It is by no means all-inclusive. After reviewing the information in this packet, please ask questions. It is intended to answer most questions you may have.

Property Management Services:

1. Finding and Placing Tenants

Keeping rental property occupied is perhaps the most important function of property management. We strive to balance keeping the unit occupied as much as possible while keeping the rent as high as possible. We follow the rental market closely and advise our owners when we think increases or decreases in the rental rate are necessary. The owner always has the final say on all aspects of his/her property.

A. Advertising vacancies

1. Newspapers- We primarily advertise in the Belleville news Democrat.
2. Internet- We advertise vacancies on our website 1stALLIANCErealty.com and on yahoo vacancies.
3. Marquis- For those vacancies within a few miles of our office, we use the marquis in front of our office.
4. Signs- We place signs in the yard of all vacancies.
5. Scott AFB—We advertise units in close proximity to Scott at the Scott housing office.

B. Showing Units

We have all prospective tenants drive past a property prior to an on-site showing. This ensures that they are interested in the property and the neighborhood. When they follow up we take them out to see the inside of the property.

C. Tenant Applications

If a tenant decides to apply for tenancy, we have them fill out a comprehensive two-page credit application. Then we run an Experian credit report and use this information to accept or decline the application. We consult the owner of the property on all applications. The owner must sign off on all accepted tenants.

D. Signing Leases

We have a comprehensive lease that has been reviewed and edited by two real estate attorneys. All tenants are required to sign a 12 month lease prior to move-in unless an exception is made by the owner of the property.

1. We have all owners sign disclosures when they sign our property management agreement. We use those disclosures to issue copies to the tenants when they move in. Lead Based Paint disclosures are required, by law, to be provided to tenants of all properties built prior to 1978. For safety sake, we provide the disclosures to all tenants, regardless of when the property was constructed.
2. Deposits- We generally set the security deposit at the same amount as the monthly rent, but this can be increased or decreased at the owner's discretion. Deposits may be held by the owner or in the 1st Alliance Escrow account. Details of the deposit can be found in our lease in this packet.

3. Move-In Checklist—Tenants are provided a move-in checklist at move-in. We require it back in our office within two weeks. We then use the move-in checklist as a reference when damages are charged against the security deposit at move-out.
4. We ensure utilities are switched into the tenants' names, when applicable.

2. Office Tasks

A. Collect Rents

The busiest 5 days of the month for any property management are the first five days of the month. In our case, leases are written with rent due on the first and late after 5:00pm on the 5th of the month. We post five day notices on the 6th day of the month and add a 10% late fee. Tenants still late on the 11th qualify for eviction. Every eviction case is different.... In some cases we try to work out a payment schedule to get a good tenant back on track. In cases where the tenant has created problems, we lean toward eviction. As in all cases, the final decision is the owner's.

B. Post 5 Day Notices

Five day notices are posted on the 6th of the month for all tenants late on their rent or in arrears by \$200 or more. Our lease allots a fee of \$15 to the tenant for the posting of five-day notices. This \$15 fee is paid to First Alliance Real Estate to cover labor and vehicle expense for our employees.

C. Sign Leases and Extensions

All new tenants are required to visit our office to sign their lease and go over all aspects of their tenancy. The EPA pamphlet on Lead Paint and all disclosures are given and signed for at lease signing. Tenants are given a copy of a move in checklist and keys are provided after funds have been received for the first month's rent and deposit. Good as cash funds, (Cash, Money Order, Cashier's Check) or verification by the bank for checks, are required prior to giving out keys.

We try to keep tenants under lease as often as possible. However, there are circumstances where tenants prefer to go month to month at the expiration of a lease term. We offer tenants the option to renew their lease for 12 months at the same or a slightly higher rate or to go month to month for a higher rate. Example: A tenant at \$425 may be offered a new 12 month lease at \$430 or a month to month tenancy for \$450. In most cases they renew the lease. The tenants that opt for the month to month are generally looking to move anyway so we are able to collect an extra \$25 per month in the interim.

E. Schedule Inspections

When units are ready for move-in the maintenance staff notifies the office staff. The office staff schedules the inspection with the governing municipality and pays the inspection fee from the property owner's account. Maintenance personnel attend the inspection so that minor repairs may be made at the time of inspection to ensure passing.

F. Pay Mortgages & Bills

After rent is collected, management fees are allocated and dispersed. Remaining funds are used to pay all bills for the property including, but not limited to: trash collection, water and sewer, electricity and gas, lawn care, snow removal, maintenance materials and labor, and in rare cases legal expenses. We also can escrow taxes and insurance and we will pay mortgages if the owner opts for us to do so. After all the outstanding bills are paid, the balance is either deposited into the owner's bank or mailed to the owner directly. We recommend a minimum balance be kept in the account of each owner to cover expenses that may come up from time to time. This balance varies by the portfolio of the owner, but at a minimum we require \$200 on hand at all times for emergency repairs that may arise.

F. Schedule Maintenance

Tenants are required to call our main office number for all maintenance requests. Emergency calls are dispatched immediately and non-emergency calls are dispatched to maintenance to be completed in a reasonable time-frame (usually no later than 1 week). The owner will be required to approve all repairs over \$200. This amount may be raised or lowered on an owner by owner case. While we want to keep owners in the loop, we also want to avoid pestering owners for routine problems that can be repaired relatively quickly and inexpensively. We have a form in the appendix for owner's to complete that gives us an idea of how they prefer most maintenance issues be handled.

G. Create Owner Reports

At the end of each cycle, between the 6th and 15th, financial reports are prepared for owners along with owner disbursements. The reports show all activity for the property over the course of that month. A separate report is created for each property. During January, Year-End reports will be prepared for owners detailing all activity for the entire year for each property. These reports should contain all the information your accountant will need to prepare your taxes for the property. Please see the appendix for samples of the reports we provide. We also are required to report income received to the IRS for each owner. Income is reported on a form 1099 and is mailed no later than January 31st.

3. Maintenance Responsibilities

We can handle arranging maintenance and upkeep of properties, or the owner may handle it externally, if desired. Some owners have their own full-time handyman and others have 1st Alliance Handle all aspects of maintenance. Maintenance needs are handled on an owner by owner case. We can also outsource to a preferred list of vendors if requested. The following list covers how we generally handle different maintenance issues. In-house labor costs run about \$15/hour on average. This covers the cost of labor salaries, workers-compensation, & payroll taxes.

When a tenant moves out, the unit must be prepared for the next tenant. We call this turning the unit. In most cases, our maintenance personnel can handle all aspects of a turn. Typical turn time is 5-7 business days. More extensive repairs will lengthen this time and improvements requiring 3rd parties will lengthen this time, as well.

Internal Repairs are those made by the employees of 1st Alliance. Our maintenance crew charges for time and materials. We do not markup the cost of labor or materials. Time is billed for the time to make all repairs and the time required to retrieve all materials used to make the repairs. Vehicle expense is not billed, just time. We have commercial accounts setup with many vendors and several retail locations, including Lowe's, Home Depot, Don's Hardware, RP Lumber, and other locations. We also add locations as needed for properties too far removed from these hardware stores. Because we purchase large volumes of materials, we are able to get 10% off at the stores listed above. Materials are charged to the property they are used on and the bill is sent to our office. The office staff then pays the bills with rent collected during that cycle.

Listed below are the most common types of maintenance required and how we handle each of these needs.

A. Painting

Nearly all painting is handled by our staff. Most jobs can be completed in one to two days. We currently use Lowe's Olympic Flat White (one-coat coverage paint) for all interior painting. If an owner has used a particular paint for past jobs, we can reduce the cost of painting significantly if we are supplied with the store, brand, and paint code previously used.

B. Drywall Repairs

Most drywall repairs can be handled by our maintenance staff. Large jobs involving insurance claims are outsourced to drywall vendors.

C. Flooring

Flooring repairs and replacements are determined based on the scope of the job. We recommend installing ceramic tile in kitchens, baths, and entryways. Ceramic tile is a bit more expensive, but it holds up over the long haul better than any other type of flooring. The Ceramic tile we install averages about \$.98 per square foot with underlayment, mortar, and grout running about another \$1.00 per square

foot. Installation time varies based on the difficulty of the job, but our maintenance personnel can complete the job at a fraction of the cost charged by flooring centers and professional tile installers. Other options for flooring include vinyl and sticky-backed linoleum tile. Hardwood and sheet flooring are outsourced to Flooring stores. The vendor we use for these jobs is McCullough's Flooring Center in Belleville.

D. Carpeting

When carpeting needs to be replaced, we outsource the replacement to McCullough's Flooring Center. We currently use a contractor's grade plush or Berber. Because of the volume we purchase we have worked out a volume pricing arrangement with the vendor. Currently we pay \$7.25/yd for carpet, \$2.15/yd. for 6 lb. pad, and \$4.50/yd. for installation. Removal of carpet and pad runs \$2/yd. We have our maintenance personnel remove existing materials in advance, when possible, to reduce the removal cost. We also re-use pad when possible to save the \$2.15/yd and reduce the labor cost by \$.50 per yard. When the carpet and pad have to be replaced, the bottom-line cost for replacement is approximately \$15.00/square yard.

E. Appliances

Appliances wear out and break down. We have found that the cost of replacement is generally favorable to repairing appliances more than 5 years old. Some older appliances, particularly harvest gold and avocado green, need to be replaced to attract the best tenants and maximize the rental rate. We use Lowe's for all appliances because they have the most affordable units. We purchase Roper appliances in most cases. As of mid-2005, unit prices are as follows:

18 cubic foot Refrigerator	\$347.00
Electric Stove/Range	\$279.00
Dishwasher	\$197.00
30" Range Hood	\$30.97

**tax and delivery and installation are not included in the prices

F. Minor Plumbing

Minor plumbing includes faucet replacement, faucet repair, toilet repairs or replacement, dishwasher repair/installation, washer hookup repairs, garbage disposal replacement, repair of broken lines, and unclogging stopped up p-traps. All of these repairs are handled by our maintenance staff. In most cases it is more cost effective to replace faulty faucets. Our staff stock economical replacement units in their vehicles. While plumbing fixtures can often be repaired, the cost of labor for retrieving parts and then repairing the unit can often lead to higher costs than simply swapping out the unit. The exception to this is shower faucets and they are repaired whenever possible.

G. Major Plumbing

Major plumbing projects include stopped up main sewer lines, water heater repair and replacements, water main breaks, exterior breaks of buried water lines, replacement of tubs and tub faucets, and clogged vent stacks. In most cases a plumbing contractor is called to handle these problems, though in some cases our staff is able to handle the problems. Any problems requiring a plumber are outsourced to Alpha Sewer. They generally get to our maintenance requests within 24 hours and respond immediately in emergency situations.

H. Minor Electrical

All minor electrical repairs can be handled by our staff. Minor electrical repairs include, but are not limited to, replacing breakers, GFI's, outlets, light switches, light fixtures, ceiling fans, and repairing some telephone line problems.

I. Major Electrical

All major electrical problems are outsourced to an electrician. Major electrical problems include power surge issues, locating shorts in the walls, breaker panel replacement or upgrade, meter base problems, weather-head problems, or diagnosis of major wiring issues.

J. Doors & Windows

Windows, interior & exterior door replacement and repairs can be handled by our staff. However, only necessary repairs are made. Window and door upgrades made as a part of a major remodeling project are outsourced to third party vendors.

K. Roofing

Roofing is always outsourced, from repairs to total roof replacements. Our insurance does not cover roofing in any form. Any time roofing work is required we submit a request for bid to a minimum of 5 roofing companies and usually upwards of 10-15.

L. Major Improvements

Major upgrades and rehabs are the responsibility of the owner. While we are willing to oversee day to day operations of property, we are not in the business of rehabbing property. We are happy to handle the acquisition of bids and overseeing contractors. We do not have the staff to handle major renovations. These types of renovations include total interior replacement, replacing all windows and doors, and replacing the exterior of the building (siding, shingles, brick, etc.)

M. Driveway Sealing

Occasionally blacktop needs to be sealed and repaired. During slow periods our staff can handle such jobs. Most of the year our staff is too busy to handle such projects and these jobs are outsourced to companies specializing in that type of

work. We will handle the acquisition of bids and working with the vendor and the tenants to get the job done.

N. Heating & Cooling

Most heating and cooling problems can be fixed relatively easy. When tenants call about air conditioning problems, we start by having one of our workers replace the furnace filter and clean the coil. In most cases this solves the problem and the expense is billed to the tenant for failing to replace the furnace filter. If that does not fix the problem an HVAC technician is called in to evaluate the problem. All furnace malfunctions are outsourced to an HVAC technician. We use Certified Heating and Cooling in Swansea for all HVAC needs. We get good rates and faster service by offering them a high volume of business. When units require replacement we get bids from several contractors.

O. Other Repairs

While we have tried to list most maintenance issues that might arise, there are countless other situations that may arise. Most repairs can be handles by our maintenance staff. Whenever something unusual occurs, we contact the owner to work out a plan of attack.

4. Cleaning

The most important aspect of any property to tenants is cleanliness. After maintenance finishes prepping an apartment for rent a cleaning crew (or person) is sent assigned to prepare the property for move-in. Occasionally a tenant will leave a property in move-in condition. However, most units require cleaning and carpet-cleaning. We handle most carpet cleaning internally (we stock professional-grade carpet cleaning equipment) but will occasionally outsource carpet cleaning during very busy periods. We strive to staff cleaning personnel, but it is a position with high turnover and cleaning is outsourced when we are between cleaning personnel.

5. Lawn Care

Tenants living in houses and duplexes are required to maintain the lawn themselves or hire the work out, at the tenant's expense. All lawn care for apartment complexes is outsourced to lawn care companies. We get bids from several companies for each property and contract the work out as inexpensively as possible. If problems arise with one service we have the work re-bid and assign a new company to do the work and cancel the prior commitment.

6. Trash Pickup Service

Tenants in houses and duplexes and triplexes are responsible for arranging and funding their trash pickup service. Apartment buildings have dumpsters. Dumpster sizes and fees differ based on the needs of the building. We use the following chart to help determine the dumpster size required at a location:

4-10 bedrooms	2 cubic yard container
11-20 bedrooms	4 cubic yard container
21+ bedrooms	6 cubic yard dumpster

Circumstances can change over time and need to be re-evaluated when problems arise. We currently employ Allied Waste for the dumpsters at all of our properties. We get favorable rates based on the number of buildings we have under contract with them. We check market prices periodically and have found that our current contracts are as much as 25% below market prices.

7. Evictions

As a corporation we cannot legally represent clients during an eviction. While evictions are rare, they are occasionally required to remove non-paying or disruptive tenants. We can arrange for an attorney to handle evictions or owners can file evictions themselves. Evictions are costly. When problems arise we try to work out a solution or convince the tenant to move whenever possible. Those rare occasions when evictions are necessary we will consult with the owner and an attorney (if opted for) to facilitate the fastest removal of the tenant possible.

8. Extra Services

1. Purchases and Sales

Should you decide to purchase or sell property while we are managing your property, we hope you will choose us as your Realtor in the transaction. We can help evaluate properties for purchase and can make recommendations to maximize value when selling.

2. Master-locking

We highly recommend master-keying all properties. We offer master-keying services in our office at substantial savings over using a locksmith. We master with Kwikset locks and keep records of all locks in our office. We change the locks on every unit whenever a new tenant takes possession. This is for both safety and liability reasons. Master keying allows the owner, manager, and maintenance personnel easy access to all units at all times. Master keying also allows for easier key management. Once a master system is established, new keys can be produced with ease.

9. Areas Serviced

Our office is located in O'Fallon. As a consequence it is unrealistic for us to offer management services to the entire metro-east area. For owners with property in multiple areas we will make exceptions provided that the majority of the property falls within our geographic areas of preference. We plan to expand our geographic area of coverage as our client base grows and staff is expanded to meet the needs of clients. As a general rule, our coverage area is Edwardsville south to Belleville and Collinsville East to New Baden.

Areas covered

Belleville
Caseyville
Collinsville
Edwardsville
Fairview Heights
Freeburg
Glen Carbon
Hollywood Heights
Lebanon
Maryville
Mascoutah
New Baden
O'Fallon
Shiloh
Swansea
Troy

Areas not covered

Alton
Bethalto
Cahokia
Centreville
Columbia
Dupo
East St. Louis
Fairmont City
Granite City
Highland
Madison
Marine
Pontoon Beach
St. Jacob
Washington Park
Waterloo
Wood River

10. Schedule of Fees

1. Full management Services

Gross annual rental income	Management Rate
\$0 - \$49,999	6%
\$50,000 or more	5%

**We charge \$100 minimum for advertising each time a unit is vacated. Units empty for extended periods may be subject to additional advertising fees.

2. Tenant Placement Services

Some owners handle all aspects of managing their property but struggle with finding and screening suitable applicants. Very often we have people seeking property but have nothing that meets their needs. We are willing to offer tenant placement services that allow the owner to continue to manage the property. We simply advertise the property, show the property to prospective units and run credit reports to screen applicants. We charge one-half of the first month's rent for this service with a minimum charge of \$250. One hundred dollars is required up front for advertising with the balance due after the first month's rent is received. The \$100 up-front charge is non-refundable even if the owner places a tenant outside of our service.

11. Conflicts of Interest

We strive to avoid conflicts of interest. Outlined below are a couple of areas where conflicts may arise.



3. **Discrimination-** Equal opportunity laws require us as Realtors and Property Managers to obey all fair housing laws . We will not discriminate against anyone who applies for tenancy with our company on the basis of race, color, religion, sex, familial status, or national origin. Any owner uncomfortable with this policy or who might ask us to make any exceptions to this policy should seek management services elsewhere.
4. **Placing Tenants-** Employees of 1st Alliance also own property managed by 1st Alliance. We are aware that owners have concerns that property managers might sway tenants to their personal property and away from other owners' property. This is called Steering and it is illegal. We get many more inquires for property than we can meet. We turn away more prospective tenants than we accept simply because we don't have property in our inventory that meets the tenant's needs. Tenants generally have very specific needs (1BR vs 2BR) and generally look in specific areas. It is unusual for multiple units of the same type to come available in the same area at the same price.
5. **Bidding on the same property-** I've had clients express concern that Realtors who invest in real estate take all the good deals before their clients can get them. First, we will never purchase a property one of our clients puts a bid on. Second, Realtors aren't (in the majority of cases) rich in cash. We can't buy all the deals that come along and are generally limited to one or two purchases per year.

12. Appendix

**Notes on the following Appendix items:

Property Lease

The property lease in this packet is the actual lease in use at the time of this printing. It is a living document and changes as our experiences deem it necessary.

Move-In Checklist

The move checklist is provided as a tool for the tenant's protection. We do not require them to return it, but recommend that all tenants fill it out. We will not accept the move-in checklist more than 14 days after move-in.

Management Agreement

We want all of our clients to be happy. If you are unhappy with our services, please let us know about it. The law requires us to have a valid and current management agreement signed by our broker and the property owner at all times.

Financial Reports

The financial reports in this packet were actual reports used in our office. The property ID's and tenant names were changed for privacy reasons.

Owner Preferences Sheet

If you are interested in using our services, please fill out the owner preferences sheet included at the back of the packet. It will allow us to get a feel for how you want your property maintained.

Owner Preferences Sheet

1. On rental rates I am most concerned about:
 - 1) Keeping all units full at all times even if it means rents may be low
 - 2) Keeps rents as high as possible with vacancies rates a little elevated
 - 3) Maximizing rent rates. Vacancy rates may remain high.

2. On Maintenance:
 - 1) I want my property kept in immaculate condition sacrificing cash flow
 - 2) I want cash flow maximized, even if results in overall deterioration
 - 3) I want to maintain the property in average condition

3. On Maintenance:
 - 1) I want broken items (such as faucets) replaced
 - 2) I want broken items repaired.
 - 3) I want broken items replaced unless it can be repaired for substantially less

4. My main focus as an investor is:
 - 1) To maximize cash flow
 - 2) To maximize property value (appreciation and mortgage paydown)
 - 3) To maximize tax benefits
 - 4) To balance cash flow and property value while reaping tax benefits

5. I have managed my property myself in the past 5 year:
 1. Yes
 2. No

6. I want my level of involvement in the management of my property to be:
 1. As little as possible
 2. Middle of the road
 3. Highly involved

7. On my portfolio, in the next five years I plan to:
 1. Maintain the current inventory
 2. Increase my holdings
 3. Sell off my holdings

8. I want to be involved in tenant selection:
 1. Yes
 2. No

9. I want my reserve fund to be:

1. Less than \$200
2. \$200
3. More than \$200

10. On Maintenance:

1. I have my own maintenance worker/(s)
2. I want to do as much maintenance as I can handle myself
3. I have specific vendors I want used (please supply this list with names, numbers and addresses)
4. I want 1st Alliance to handle all of my maintenance

11. On Maintenance, I want to be notified:

1. Whenever a maintenance expense over \$100 is incurred
2. Whenever a maintenance expense over \$200 is incurred
3. Whenever a maintenance expense over \$250 is incurred
4. Whenever a maintenance expense over \$500 is incurred

12. Concerning Owner disbursements:

1. I want a check mailed to me
2. I want to pick up funds at 1st Alliances office
3. I want funds deposited into my bank account

13. Concerning Security Deposits:

1. I want to hold the funds
2. I want 1st Alliance to hold the Funds in the company Escrow Account

14. I want my property master-keyed:

1. Yes
2. No

I have the following concerns I would like addressed:
