



**PARAGON PROPERTY
MANAGEMENT GROUP LLC**

HELPING CLIENTS SUCCEED WITH
CHICAGO REAL ESTATE INVESTMENTS

**OWNER
HANDBOOK**

*A guide to our management approach
and what to expect as a client*

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INTRODUCTION

Our mission is to help property owners succeed with real estate investing in Chicago. We accomplish this by providing high quality management services for clients who align with our approach for efficient and effective property management. With our emphasis on efficient management, we can keep our rates competitive and provide quality service to our clients and tenants.

We have managed property in Chicago for over a decade. As property manager on hundreds of properties we have helped clients through numerous challenges including bad prior management, problem tenants, poor investments, and bad rehab projects. In addition to working on client properties, we also have extensive experience in real estate investing, with dozens of properties across many partnerships.

Based on our experience we have established a management approach that we find works best in our Chicago market.

We created this document to be transparent with new clients about what we have found works and how we manage. We want our clients to understand our approach and practices and for us to start our working relationship as aligned team members

Each client relationship and property assignment is important to us, and therefore we are selective with the properties and clients that we take on. We wish to build long-term relationships with clients that we are aligned with and help them succeed and grow their real estate portfolio.

MANAGEMENT APPROACH

A well-maintained property with quality apartments, priced correctly to the market, that are marketed well leads to a good pool of applicants. With good tenant selection and management, the property then has a good foundation for successful operations.

An apartment that shows well and is priced competitively with the market will attract more qualified applicants and lease quicker. Better tenants and quicker leased unit results in better financial results for the owner overall.

We prefer not to take on clients that are not financially constrained or have extensive property issues without adequate funds to address the issues. We have managed turnaround of many distressed or underperforming properties, but it requires investment of money and effort. We are happy to invest our time and effort into such projects if the client wishes to pursue a plan and has the funding to support it.

If you have a challenging and distressed property and uncertain means to rectify the issues then it will not be a good fit for our management. We can however, offer a number of options to arrange for direct purchase by investors with the financial means and track record for turning properties around.

We feel there are four key concepts critical to success in operating Chicago real estate investments:

Management

Good property management is a key factor in successful real estate investment. Your property is an expensive asset with a lot of potential issues, variables, and liabilities. After you have made the initial selection and investment in the property, good management is then the key factor in whether it will be a success or failure.

Investment

It takes continual investment to properly operate and maintain investment property. There must be emphasis on maintaining and improving the property and in taking care of your customers, the tenants. This investment then translates into better operation and increased property value. If the focus shifts to an emphasis on saving money and avoiding further investment, then the property and tenant quality will start to deteriorate and puts a strain on our ability to manage efficiently.

Trust

Find a property manager you can trust and then trust them to operate the property on your behalf. We provide thorough reporting and updates to our clients, and coordinate with clients as needed. However, do not wish to work in a micro-managing arrangement as it is not effective nor efficient for the owner or property manager.

Priorities

Prioritizing initial cost savings over quality and long-term benefit is not a good approach. Only focusing on finding the cheapest option is an approach that ends up costing much more with bad quality, re-work, and strained relationships.

Property Quality Standards

We do not support 'slumlord' type approaches to rental management. We do not find it to be a successful approach and it is not good business practice. If an owner has a property in poor condition with lots of deferred maintenance, there must be a clear plan for resolution and budget to support it. We require any property or unit that we manage to be maintained in minimum rentable condition.

In taking over a newly purchased property there might be many items that need to be repaired. Note that we can't dispute with the current tenants whether items were broken by the tenant or if it was broken previously, or not installed properly by prior owner. Any issues need to just be fixed along with any other repairs that are required when taking over the property. New owners should understand not to expect operating profits to start right away, as it takes time and investment to properly operate properties.

Property Management vs. Asset Management

We have helped owners implement and succeed with various strategies to improve units, raise rents, and increase value. However, please be aware that we are the property manager, not an asset manager or partner. Creating financial projections, forecasts, or profit analysis is not typically within the scope of the property manager. We are not responsible for the profitability of the property or the owner's investment strategy.

We will help to establish the property management strategy, implement that strategy, complete repairs, perform leasing, etc., but profitability of a property or investment strategy has to do with many factors outside of our control.

We are happy to provide owners our advice based on our experience, and we do take on total responsibility for profitability of investments where we are investment partners, however it is not part of property management.

OWNER COORDINATION

Team approach

Your assigned property manager will oversee all aspects of property management and will be supported by other team members as well. You may receive correspondence and interact with other team members as needed such as office administrative staff, leasing specialists, bookkeeping manager, etc.

Bookkeeping

We track and manage the property bookkeeping through our property management software, Buildium. We provide owners an online owner portal where with access to real-time property transactions and financial reports and all supporting documents such as receipts and invoices. Through your owner portal you can submit owner contribution funds via ACH to fund your operating account.

Although all information and reports are always available to the owner through the owner portal, we also provide owners with monthly reports posted to their share folder. Your main folder will include a sub-folder for each month which will include the monthly owner statement and supporting information such as receipts and invoices, and there will be one folder for miscellaneous photos and documents.

Operating Account

As your fiduciary agent we manage the funds for your property from in an operating bank account. Rent income will be deposited here, expenses will be paid from it, and each month we will send you any excess funds. We will retain in the account a minimum reserve amount for contingency items and typical operating costs. The reserve amount consists of two components:

- Contingency Reserve - Minimum for contingency issues should they arise. Not intended to cover regular monthly operations.
- Operating Reserve - Minimum amount to cover typical monthly expenses such as utility bills, management fees, snow removal, lawn care, regular maintenance, and repairs.
- Boiler Heat Reserve - A higher operating reserve amount will be needed if a property has boiler heating. We suggest setting up budget billing with the gas company so that the billing amounts are spread consistently throughout the year.

Reserve Guidelines				
Units	Contingency Reserve	Operating Reserve	Total Reserve	Boiler Heat Reserve*
1	\$500	\$400	\$900	\$0
2-3	\$750	\$900	\$1,650	\$300
4-9	\$1,000	\$2,000	\$3,000	\$750
10-19	\$2,000	\$4,000	\$6,000	\$1,500
20-39	\$4,000	\$7,500	\$11,500	\$3,000
40-60	\$6,000	\$11,500	\$17,500	\$5,000

*Boiler Heat Reserve only applies to properties with boiler heating systems. Not applicable to properties with individual furnaces in each unit

Owner Draws

Each month by the 15th, we will send any excess funds to you (referred to as an owner draw), along with monthly statements.

Our time frame allows for these steps:

- Bank statements - Chase Bank usually issues monthly statement 3-5 days after end of month
- Reconciling books - Our bookkeeping team uses the statements to the finalize and reconcile the account for the month
- Review - Our property management team reviews the statements and invoices to verify completion
- Submit - Monthly statements are issued, and funds are sent via ACH direct deposit to the owner.

The Owner draw amount will be equal to the excess funds above and beyond the reserve amount, minus any other projected expected costs, such as upcoming repair projects.

Management Agreement

Our management agreement is available for you to review in detail prior to considering us for management services. We are confident in the level of service that we provide, so we allow our clients the flexibility to cancel service with no long-term commitments or termination fees. If you decide you prefer not to work with us, we allow for cancellation with just 60 days' notice. Likewise, we reserve the right to cancel management services with a 60-day notice should we determine the property or arrangement is not working for us.

Please refer to our management agreement to review other terms and fee specifics in detail.

TENANT COORDINATION

New Property Management Steps

Upon start of management we will drop off a Welcome Letter to each apartment. This provides an initial introduction to the tenant regarding our new management services with information on how to contact us with any issues. The property manager then conducts in-person visits to meet each tenant, walk through their apartment with them, and note any concerns raised by the tenant. This helps to establish a relationship with the tenant and allows the property manager to identify any issues that might need to be addressed.

Communication

We manage tenant communications with tenants 24/7. Our regular office hours are 9am to 5pm Monday through Friday. Weekend and after-hours communication are monitored by the property manager.

We offer each tenant access to their tenant portal in our property management software where they can easily submit maintenance requests, review their financial ledger, pay rent, and view their lease or other documents we have shared with them on the portal. Tenants can also contact us by phone, email, text, or set a time to meet with us at our office.

Tenant Handbook

We provide all tenants a copy of our Tenant Handbook which details our rules and expectations and we ask them to sign to confirm their understanding and agreement. Prior to leasing, we review the document in detail with them and emphasize key points. This helps to ensure our expectations are clear. The document covers some items related to the lease, but also goes into detail about our expectations and our process of coordinating with tenants. This Tenant Handbook is available on our website should you wish to look it over.

Rent Collection

We provide our tenants several convenient payment options:

- Online payment through their tenant portal using checking account or credit card
- Easy electronic payment methods such as Chase Quickpay and Zelle
- Money order – can be mailed to our office, dropped off to our office staff, or placed in our mailbox if after-hours.

We do not accept cash or personal checks for rent payments.

Late Rent

Here is an overview of the process we apply for late rent. We go into further detail of certain aspects further below.

- Late fees – late fees applied to the tenant ledger if rent is not received by the 5th of the month.
- Notification - notification is submitted to the tenant via letter or email to inform tenant of late fee and balance
- Contact tenant – we reach out to the tenant to try to understand the situation. As an additional service, we can continue to reach out to tenant each week to check on the status and plan from the tenant. Otherwise with the owner's approval we will take steps to arrange for move-out and lease termination.
- Move-out Request / Cash for Keys offer - If the tenant is unable to resolve the rent payment balance, we will advise owner and obtain agreement to proceed with steps to have tenant move out. We recommend offering the tenant a sum of money to help them vacate the apartment by an agreed upon date. This is a much better approach for owners to save time and money as compared to eviction. More detail on this approach is provided below.
- Eviction – If the tenant does not agree to the Cash for Keys offer, or if they end up not complying with the agreed upon terms, the next step is to pursue eviction.

Late Fees

Late fees are implemented up to the limitation set by the Chicago Landlord Tenant Ordinance. Late fee amount is equal to \$10 for the first \$500 of rent and 5% on the portion of rent above \$500. Late fees are retained by Paragon as management income to help partially offset to the additional management efforts involved in tracking and pursuing late rent.

Late rent can be a common occurrence particularly in moderate income areas. This is something we encounter despite our thorough process and best efforts in selecting the most qualified tenants from the applicant pool. As property manager we incur additional costs and efforts in associate with managing and addressing late paying tenants. This includes:

- Checking, monitoring, tracking late payment issues
- Applying late payment charges to tenant ledgers
- Sending late payment notices by email and postal mail
- Contacting the tenant by phone. Lengthy discussions to try to understand the issue and resolve with tenant

Evictions

The eviction process in Illinois can take anywhere from 4-6 months and can cost approximately \$2,000 to \$3,000. This includes costs for process servers, court filing fees, and legal fees. The costs and timeline can vary based on a few factors such as the number of court appearances required. Here is an overview of the basic eviction process:

- Legal Notices – A process server is contracted to provide legal notice to the tenant. If the process server is successful in serving notice, they provide an affidavit confirming this for court records and can attend court as a witness to confirm service, if needed. Refer to the Types of Lease Notices section for additional details on the specific types of notices served.
- File Eviction Complaint – Once five days have passed since the service of the 5-day notice, the attorney can file for the eviction. The court date will then get scheduled, and the tenant is notified of the court date by a process server for the court.
- Court– There will be one or more court hearings regarding the eviction case depending on how the tenant responds. The court process takes longer if the tenant shows up to court and requests more time. It will take even longer if tenant is represented by an attorney. If our case is successful, we will be awarded an Order of Possession. This order will list the date the tenant has to move out by, which is typically around 14 days.
- Schedule Eviction – If the tenant is still in possession of the apartment after the date indicated on the Order of Possession, then we can schedule to have the Sherriff forcibly evict the tenant. Scheduling the eviction can take longer during the fall and winter since they will not evict tenants during holidays or when temperature or weather is severe.
- Eviction– On the day of the eviction we will have workers present to provide keys for the Sheriff if needed for access. Note that the Sheriff will require the occupants to vacate the apartment but will not move any of the tenant’s belongings. Once the tenants have been removed by the Sherriff, we will change the locks. The tenant can move their belongings themselves, coordinate with us at later time, or we can schedule a crew to move the items.

Sometimes the pressure of impending eviction will lead the tenant to vacate the apartment.

We have experienced attorneys that we work with to handle the eviction process.

Types of Lease Notices

Here is a summary of the types of lease notices we use in compliance with City of Chicago laws:

- 5-Day Notice (Non-payment of Rent) – This notice is used if the tenant has a rent balance due. This notice demands full payment of rent within 5 days. If the tenant does not pay the rent within those 5 days, the landlord can file an eviction case in court.
- 10-Day Notice (Lease Violations) – This notice is used if the tenant breaks a rule in the lease. The landlord can then serve the tenant with a 10-day written notice. If a tenant addresses the issue within 10 days, they are permitted to stay in the unit. Note that proving certain lease violations in court can be very complicated and difficult, therefore it is not practical to use.
- 30-Day Notice (Non-Renewal) – This notice is used when a tenant is under a month-to-month status. The landlord can end the tenancy by serving this notice to the tenant without giving any reason. In Chicago, the amount of notice the landlord is required to give depends on how long the tenant has lived there.
 - Less than six months: 30 days’ notice is required.
 - More than six months but less than 3 years: 60 days’ notice is required.
 - Over 3 years: 120 days’ notice is required.

If the landlord accepts rent after serving the notice, they must serve a new notice to end the lease

Move-out Negotiations: Balance Forgiveness and “Cash for Keys”

As indicated in the Eviction section above, the cost and time delays for evictions can be quite extensive. Therefore, it is beneficial to the owner for us to pursue an alternate arrangement with the tenant to arrange a move-out if possible which often involves agreeing to forgive some or all the balance due or offering the tenant a payment for moving out in a timely manner (“cash for keys”). This can help owners save the thousands of dollars in legal costs and lost rent by getting the tenant out faster. A cash for keys offer may be the range of \$500 to \$2,000 depending on what is established with the owner and negotiated with the tenant. These funds can help a tenant who is encountering financial distress to cover moving costs or deposit on a new apartment and provides them an incentive to move quickly. We try to target a 30 to 60 day time frame for the move-out. We document this in an agreement with tenant. On the day of move out, we meet the tenant to verify move-out, provide them a check, and have our maintenance worker replace locks. These efforts may not always result in a successful move-out but they do allow owner a good chance to avoid the extensive costs and delays associated with an eviction.

Problem Tenants

Sometimes with a new property, an owner might inherit problematic tenants who fail to adhere to our standards per the Tenant Handbook and Chicago Landlord Tenant Ordinance guidelines. We start by addressing any issues with the tenant and try to find a resolution. If the concerns cannot be resolved we will provide tenant a notice of non-renewal of lease, if applicable. This is the best approach if the tenant’s lease has already expired and has reverted to month-to-month basis, or if it will be expiring soon.

Another option, if any lease violations are applicable, is to consider issuing a 10-Day Notice which requires the tenant to cease any lease violations within ten days or move out. However, this would then require eviction to enforce the move-out.

Subleasing

Should a tenant wish to move out of their apartment during their lease term, Chicago law allows tenants the right to sublease their apartment. The landlord must accept a reasonable subtenant offered by the tenant without charging additional fees. The law also states that if a subtenant is not provided, the landlord must make a good faith effort to find a new tenant, thereby relieving the liability of the original tenant.

Subleasing can create a lot of potential issues such as:

- Disputes from subtenant directed to the property manager in regards to what the subtenant was promised by the prior tenant related to items such as apartment condition
- Significant risk that the subtenant could become a problem tenant. The prior tenant is just seeking someone to take over the apartment and will not have performed a thorough tenant screening and selection process.

Therefore, to comply with the law and to still ensure proper control of the tenancy, if a tenant wishes to move out, we will directly handle re-leasing the apartment in accordance with our leasing process addressed later in this document.

Tenant Administrative Fees

While managing a tenancy through the course of the lease we encounter many instances where a tenant requires additional administrative services from Agent. Rather than bill the owner more in such cases, we bill the tenant a minimal reasonable administrative fee to compensate Agent for the cost incurred or the administrative effort. Examples include: returned payments, requested lease revision to add occupant to lease, re-keying request, lease violation notice, tenant damage repair bill, holding over after lease expiration, etc. All potential tenant fees are detailed in the lease provided to the tenant.

PROPERTY AND MAINTENANCE

Minimum Rental Condition

We require apartments to meet minimal rental conditions prior to conducting showings. This means that the apartment should be properly repaired, reflect quality construction, be in move-in condition, and cleaned. We do not support leasing efforts on apartments that are not in satisfactory move-in ready condition. This is because coordinating and conducting showings for a unit that is not yet ready wastes time for our leasing team and the prospects. Prospects may not be sure if they are interested and spend a lot of time inquiring about issues that we know need to be repaired. This also encourages applicants that are less than ideal if they have lower expectations as to apartment quality and cleanliness.

Apartments should include the following items to provide basic functionality:

- Ceiling fans for apartments without air conditioning
- Microwave installed over stove when applicable.
- Window screens (per city code)

- Window blinds - we provide blinds in all apartments to provide a consistent finished look for the unit and property. Not doing so, creates potential for tenants to put up less desirable window coverings such as sheets, blankets, newspaper or other material which detract from your property appearance making it less appealing to future tenants.
- Shower curtain rods, securely mounted to wall
- Cabinet knobs
- Towel bars

Lock System

Paragon makes the use of the custom interchangeable core lock system through Landlord Locks which we obtain directly at wholesale prices. The locks have easily removable cylinders and allow for a reduced number of keys. This system enables us to save owners money by using labor-saving technology and systems. Use of such systems is a common best practice among professional management companies.

Here is a detailed explanation of the benefits of the lock system:

- **Reduced Cost**
 - Savings estimated at \$500 over 5 years and \$1,300 over 10 years. This is achieved by eliminating lock changing expenses. Using normal locks requires recurring material and labor costs to change locks on doors each time there is a change in tenants. Note that landlords in Illinois are required by law to change or re-key the locks on a rental unit after a tenancy ends.
- **Efficient Management**
 - The property management team is able to operate more efficiently and reduce costs that would be associated with organizing, tracking, and managing hundreds of different keys across all units, traveling back and forth to office repeatedly throughout the day to return, transfer, and obtain various keys as needed, or require our team carry unwieldy key boxes with hundreds of keys. Our emphasis on efficient management allows us to provide a better service to clients and tenants and keep our rates competitive
- **Happier Tenants**
 - Each tenant only needs one tenant key, which gets them into all common doors and their unit doors. Prior apartments they have stayed at may have required several keys for all the various mismatched doors or locks they may have had.
- **Security**
 - If there is ever a security concern with an individual that has access to the common door keys, the cylinders for the entire building can be easily and inexpensively changed out in order to ensure security for the entire building and the tenants.
- **Increase Property Value**
 - Future property buyers may appreciate the effective lock system that you have put in place.

We will implement the lock system hardware gradually as tenants move out and locks are changed.

Utility Bills

We can pay all utility bills from the property operating funds. We can register most utility bills under Paragon so that we can more easily directly manage the accounts. The only bills we do not put in our name are larger building utility bills such as water, trash, and building gas bill (for properties heated by a common boiler). Those must remain in name of owner, but the bill can be mailed to our office for us to pay.

For boiler heated buildings we recommend registering for budget billing with the gas company to spread the high winter costs evenly throughout the entire year.

In Chicago, the water bill includes city sewer and trash service for properties consisting of 1-4 apartment units. The billing occurs every two months. For properties consisting of 5 units and larger, the owner must contract directly with a trash removal service company, which we can arrange for.

Ratio Utility Billing System (RUBS)

For multi-unit property with common utility costs, we offer our owners the option for us to implement RUBS to pass these utility costs entirely to the tenants. We divide the costs proportionally among the tenants based on apartment unit square footage. We can include utilities such as water, gas, and trash service. Further information on this optional program will be provided during your onboarding process.

Trash Removal

For Chicago properties with 1-4 apartment units, trash removal is provided by the city and is included in the city water bill. For properties 5 units and larger, the owner must contract trash service with a trash removal company. Paragon can help the owner to contract with a reputable trash service company. Paragon should be made the authorized agent of owner to manage the contract on behalf of the owner. Note that even with good trash service, some properties will encounter excess trash when tenants or neighbors move out and leave excess items in the alley. On some occasions this may result in a trash violation notice from the city. Note that we address this in our Tenant Handbook and specifically emphasize to our tenants that leaving excess trash is not acceptable.

Recycling

The City of Chicago Workplace and Residential Recycling Ordinance requires properties of 5 or more units to have an effective recycling program in place. We can arrange a contract with a reputable recycling service company that serves the area of your property. This can be the same vendor as the trash removal vendor but does not have to be.

Maintenance and Repairs

Overview

We have internal maintenance staff available to address property repairs and maintenance as needed. This benefits owners since our team of well-rounded handymen can handle a variety of tasks, saving owners money as compared to hiring contractors or licensed specialists.

When we receive a repair request from a tenant, we usually do not have enough information from them to understand whether it is a significant issue or what exactly is required to address the issue. We will send our technician to investigate and troubleshoot the issue. Usually our technician will be able to complete a repair and resolve the issue, but on rare occasions, we will need to hire an external contractor or specialist to address further. Please be aware that when an issue arises, it often takes time and effort to investigate and troubleshoot issues especially in older buildings.

For any repairs that we expect will cost more than \$650 we will reach out to the owner to obtain approval, except for an emergency issue, which we will address as needed.

Maintenance Labor Charges

- Labor rate \$75 per hour
 - We apply this rate to repairs and maintenance tasks handled by our in-house maintenance personnel. We charge for actual labor hours only. Hours spent driving or at store are not billed to client. Paragon currently absorbs that cost. Small flat fees listed below help us offset a portion of those costs.
- Trip fee \$45
 - We apply one trip charge per maintenance trip to property. This helps to cover some of the extensive travel time and costs that our maintenance personnel incur traveling to and from the property to perform the maintenance work
- Store Trip Fee \$75
 - We apply one store trip fee if materials purchase is required (will be listed on our invoice). As indicated above, actual hours spent driving or at store are not billed to client. This simple flat fee saves client money and helps remove any concern over excessive time involved in driving to the store, shopping in the store, checkout, and driving back to property.

Project Labor Charges

We apply a reduced rate of \$65 per labor hour for any planned project that requires eight hours or more such as CHA repairs and apartment make-ready repairs.

We will provide an estimate of the expected hours for a project and then will bill for the actual hours required. Note that we do not provide lump sum bids for jobs with profit margins built in, as a contractor would. We simply will do the work needed and bill our hours at our very reasonable rate.

When we are completing an apartment make-ready project our goal is to get the unit in good condition for rent. Our goal is not to be lowest “bidder” and undercut our costs, or to minimize scope to try to get work as a discount contractor might do. We charge a reasonable rate and we are thorough and professional.

Contractor Management

If the situation calls for it, we will hire contractors. Typically, this is required when a specialized work is required or when our maintenance staff is unavailable to complete a large project. We can also work with contractors as requested by the owner.

We charge a 15% contractor management fee to cover for our involvement in working with outside contractors.

Note that we encourage our clients to not be overly focused on trying to find the lowest priced contractor for a make-ready project. We struggle to ensure discount contractors perform quality work, fully understand all the detailed items to get an apartment fully rent-ready, pay attention to detail, and take a thorough approach which is required for efficient apartment turnovers. We sometimes spend a lot of time detailing the scope of work, expectations, reviewing the work, pointing out issues, and working through issues with the contractor. A focus on getting multiple bids from various contractors, seeking cheapest contractors, accepting poor finishes, and shortcuts on quality will lead to more time wasted, headaches, redoing work, issues, delays, a poor-quality unit, and poor leasing results.

Working with your preferred contractors

We have our existing preferred vendors and contractors that are familiar with our procedures and software. However at Owner's request we can consider a new vendor and complete vendor screening process including collecting documents for insurance, licensing, tax reporting (IRS W-9 form), ACH direct deposit form. We require contractors to have good communication and conduct themselves professionally, the same that we expect from our own staff or preferred contractors.

Recurring Maintenance

Lawn Care

Regular lawn care / yard maintenance is typically performed at a rate of \$140 per month. This is a fixed monthly fee for weekly yard maintenance including picking up trash, mowing grass, trimming hedges, and removing weeds. This is the standard rate for a typical property, other properties to be priced based on agreement with Owner.

Snow Removal

Snow removal is billed at \$95 per service for a standard snow event of 1-3 inches. This includes shoveling of snow and application of salt as needed from walkways and sidewalks to maintain compliance with City of Chicago municipal code requirements. We coordinate snow removal based on the actual snow amount and weather conditions. For a snow event of 4-6 inches the charge is double. For freezing rain, we would apply salt only, at half charge of standard service.

Property Cleaning

We perform regular property cleaning to address exterior debris and trash, clean all common areas such as rear stairwell and front interior stairs. We will sweep, mop, clean glass, and clear any spiderwebs. We will remove and control weeds in areas of the property not already addressed as part of the lawn care.

Regular property cleaning is performed for \$150-\$350 per month depending on property size and number of entrances, decks, etc.

Regular Preventive Maintenance

We perform regular preventive maintenance visits to each apartment on a recurring basis, typically twice per year. This allows us to perform recurring preventive maintenance as well as identify and resolve potential property deterioration or other issues within the unit. This also helps the tenant understand that we are looking out for them and taking care of the property. We have found that tenants often do not notify us about issues which lead to a bigger problem later.

Here are the types of items we are inspecting or addressing:

- Furnace – inspect and replace furnace filter
- Radiators – check if valves are leaking water or steam. Verify temperature is set correctly, and that tenants do not have windows open in winter.
- Toilet – check for tightness, leaking. Inspect toilet mechanisms for water flowing continuously
- Ceiling – check for leaks coming from above

- Faucets - inspect sink faucets and drain piping for leaking
- Smoke detectors – ensure batteries were not removed
- Lights – check if common area lights are out and need replaced.
- Pest control issues – check for evidence of insects or mice
- Lease violations – observe if tenant has undisclosed pets, property damage in the apartment, or other issues.
- Safety hazards – identify any potential safety hazards such as rear deck boards cracking or coming apart, window A/C units overhanging walkway not installed property, etc.

HVAC Maintenance

Boiler Maintenance

For boiler heated properties, it is important to flush out sediment on a regular basis to keep the boiler clean and sediment free. This improves the overall operation and efficiency of the system. We perform a minor flush on each boiler each week during the heating season, from September 15th through May 31st.

In-Unit Heat Check

We perform the heating system preventive maintenance in each apartment each fall to ensure the heating systems is ready for the winter and reduce the potential for heat emergencies once cold weather arrives. For furnace heated apartments we clean ignitors, test furnace, check thermostat, inspect and change filter if needed. For radiator heated apartments we check for leaks, change steam vents as needed. We also and test smoke and carbon monoxide detectors in each unit.

Air Conditioner Maintenance

For properties with air conditioning, we perform basic cleaning, testing and inspection each spring.

Pest Control

We can directly address most pest control issues, providing owners a better resolution for a lower cost as compared to contracting a professional pest control company. We have found that many standard pest control services only provide a surface treatment without resolving the root cause. This applies to mice and common insects such as ants, spiders, and roaches. For more specialized issues such as bedbugs or termites, we defer to professional pest control. Here is our approach to addressing common pests:

Ants and Spiders

We treat apartments and common areas seasonally before and after winter. We will also perform additional preventive pest control in spring and fall and as needed.

Roaches

Roach infestations - Paragon will directly address any roach infestations. We use insect foggers to ensure roaches hidden with the walls are treated. We coordinate with tenants to have them temporarily leave the apartment so we can fog the entire property or tier at the same time so roaches cannot easily move around to safety. We apply one insect fogger per room in all units. We also apply a roach gel in corners

along baseboards. We also will identify if we feel the cleanliness or housekeeping of any tenants may be contributing to the issue, and address this with them.

Ongoing treatments - For properties six units or less we will address ongoing roach treatments as needed. For properties with seven units or more, we will contract a professional pest control company to perform ongoing treatments. Typically, the pest control companies will address each unit the first time and then after that, each unit as needed per their observations or if any issues are reported by Paragon.

Mice

Pest control companies will only apply treatments and traps. However, a key aspect of keeping mice out of a property is identifying and sealing any access points in the unit as well as in the basement and around the property exterior. Therefore, we directly handle mice issues to ensure we address the access points. Our goal is to seal the mice out of the property first, and then also seal them out of the unit as much as possible. Note that some areas of an apartment that cannot be accessed without extensive work, so we can only address as much as is reasonable. For example, some of the most challenging areas that we cannot access are behind and under kitchen cabinets and behind furnaces. If these areas were not properly sealed during the initial construction, these areas can continue to be a source of issues.

After sealing access points, we set traps in the unit and monitor activity with the tenant, and retrieve the traps and mice as needed per tenant reporting.

After we do our initial inspecting, sealing, trap setting, there will still be mice still within the property for a period. We often must perform up three to five visits before the issue is completely solved. On each inspection we review with tenant where mice were seen, inspect for mice droppings, or other evidence of their presence or locations, check and seal any potential access points that may have been missed, remove trapped mice and replace traps as needed.

Bedbugs

The Chicago Bedbug Ordinance requires that landlords resolve any bedbug infestations by hiring the services of a pest control professional. Therefore, we contract this work out to a pest control company. Affected tenants will be advised to cooperate with the pest control services by washing and treating all clothes and linens, and to discard of any items the pest control company is unable to clean or treat, which might be items such as furniture and mattresses. In our Tenant Handbook, we recommend tenants to use mattress and pillows encasements to help prevent bedbug issues.

Termites

If termites are identified, we will contract our with pest control specialist to inspect and treat the entire property as needed.

Installation of Items for Tenants

We require any installation of equipment such as window air conditioners and wall-mounted televisions to be performed by qualified installers to prevent safety hazards or damage to the property. However, if we leave this up to tenants, they will likely just do the installation themselves, which puts owner at risk for damage and liability.

Therefore, Paragon will install these items as part of a maintenance request. We will do our best to consolidate into a trip for other repairs. At the start of summer, we will notify the tenants of the day we are coming out to install A/C units to install as many as possible during one trip. We limit television installations to one per tenant, after that we require the tenant to cover the cost for any additional.

Building Code Violations

If there are building violations requiring repairs we can work with owner to establish action plan to resolve. This typically involves hiring contractors to complete repairs as required and coordinating with an attorney to provide legal representation if the city has a court case for the violation.

Note that we are required to disclose the presence of any current building violations to prospective tenants prior to their signing of the lease.

As indicated in the section on trash removal, occasionally properties will receive a trash violation if tenants or neighbors placed excess trash in the area. We emphasize this to our tenants and address with them if needed, but sometimes the trash comes from nearby from neighbors moving out. Often the fines are from an incident the city recorded months prior to when they provide the notice. The city will have photos and documentation of the issue at the time of incident if the matter is disputed in court, so we recommend that we just pay the fine as soon as possible.

Appliances

If an appliance needs repair, we have an appliance repair company perform a service visit and assess if the repairs can be completed for a reasonable cost. If the repair is too extensive then we will replace the appliance. For a typical rental apartment, we will replace with a similar type refurbished appliance from a used appliance supplier. The typical cost range is \$350-\$450 per used appliance, with delivery and installation included.

We consider functioning appliances to be an essential item in an apartment and will address appliance repair and replacement as soon as we can, without inquiring with owner. If a new appliance is needed, we will consult with the owner regarding selection.

Laundry Facilities

Laundry facilities are a great property feature that helps to attract and retain tenants. This is the process we use to manage laundry facilities at properties we manage:

Laundry coin collection process

- Workers collect coins from machine once per month (billable time)
- Bags of coins delivered by worker to our office, same day
- Property manager deposits coins at a Coinstar location. Coinstar collects a fee of 11.9%. The deposit is recorded to the owners operating account. One hour of property manager time billed. Note that we use Coinstar since our bank (Chase Bank) does not accept coin deposits, similar to most banks.

To prevent confusion over coin access, our staff should be the only ones with keys to the laundry machines. If other persons have access to the keys then Paragon cannot be held responsible for any missing coins.

We recommend owners to consider including an electronic payment option on any new laundry machines, such as phone app payment. This provides more convenience to tenants and reduces the dependence on coin management. However, even with mobile phone app payment option, it is good to have coin payment available as a back-up.

LEASING

Leasing Overview

These are the factors that help to ensure a good tenant is secured for a rental apartment:

- Property – good location, curb appeal, condition, and features
- Apartment – good quality and condition
- Rent price - competitive to the market
- Marketing and advertising – good photos, listings marketed across all platforms
- Showings – convenient for the prospect
- Tenant screening – thorough process to select the best tenant

We need to have all these factors working together to have a good pool of interested applicants so that we can choose the best tenant in a short period of time. Leasing efforts can only affect a few of the items on the list, so we are emphasizing that it is important to have an attractive property and apartment and that rent price must be competitive to set the foundational for good leasing results.

Leasing Process

Here is an overview of the leasing process. More detail on each step is provided in sections further below.

- Photos - we recommend professional photos which results in much better market response. We contract this to firms such as Chicago Home Photos, costing about \$150.
- List price – we check nearby comparable listings to establish competitive list price
- Listing – we create listing in our property management software
- Marketing – we syndicate listings across all leading rental platforms, including Zillow.
- Showings
- Applications
- Tenant Screening - Background checks, review
- Tenant Selection
- Meeting – meet with tenant household in person
- Collect funds – collect initial funds such as security deposit and first month's rent.
- Housing agency coordination – (if applicable) complete documentation, coordinate inspection, complete repairs as needed to ensure apartment is approved for move-in
- Lease signing – review tenant handbook and lease
- Move-in – provide tenant keys for move-in

Leasing Commission – We charge a leasing commission equal to one month's rent for a standard 12 month lease. For leases that end in October through January we will extend the lease from 1-4 months to ensure the lease ends during the optimal season for re-leasing to ensure Owner benefits from less vacancy and higher rent rate upon re-leasing. In such cases leasing commission is prorated accordingly for the additional months.

Lease Guarantee: We offer a discounted leasing commission of 50% if the prior tenant we placed did not serve out the full term of original lease.

Leasing Showings

To provide our clients the best leasing results possible, we leverage our digital access leasing system to allow rental prospects to see the unit at the times that work best for them. This allows many more showings compared to our previous approach of limiting showings to only pre-arranged times that leasing staff would be conducting showings. We have been using this system for two years and have had great results in leasing units faster and with no issues. This system has been particularly beneficial in attracting showing requests for prospects that prefer not to expose themselves to virus risk associated with leasing agents hosting group showings. To manage the digital access showings securely we implement several sophisticated security and verification measures enabled by advanced software and hardware from industry leading firms such as ShowMojo and Vaultlocks.

Overview of our showing process:

- Our listings include a link to schedule a time for a showing. The prospect can select from any available time slot, seven days a week, from 8am to 8pm.
- The prospect must authenticate themselves by entering credit or debit card information, which is then verified confirm the showing.
- Prospects are informed that since we have all their identification information and credit card information that if there is any issue resulting from their visit, they will be held fully responsible.
- Prospects are advised that we have security cameras at our listed apartments and so they will be video recorded.
- When the prospect arrives for the showing during their respective showing time, they are required to confirm that they are at the property during their show time before they are provided a digital access code. Their proximity is verified based on the location verification by their smartphone, and they are required to use their phone to type in the serial number located on the digital lockbox on site.
- Once their presence is verified, the prospect is provided a unique access code to their phone. The unique access code they are provided is time-based, so prospects are restricted to access only within one hour of their show time. The code will not work any time after that.
- All interactions with prospects and the software and lockbox are logged.

We have used this process in leasing out dozens and dozens of units in all areas of Chicago over the past years with no issues and have found the showing time flexibility greatly increases the number of prospects that can see the unit and the number of qualified applications that we receive, allowing us to secure a better qualified tenant in a much shorter amount of time.

A vacant, repaired, clean unit will show significantly better allowing us to attract the higher quality of tenant we and our owners are seeking. Therefore, it is our typical approach to only lease up units after they have been vacated, repaired, and cleaned. In rare cases we can try to accommodate leasing while the current tenant is still in the unit.

Note that we don't recommend offering tenant bonuses or incentives with leasing. The best approach is to price the unit competitive with the market to fit within the budget of your target audience and attract the most interest.

Pets / Service and Support Animals

Allowing pets at an apartment can increase the level of interest from prospective tenants, help secure qualified tenants faster, and reduce turnover. Also tenants are increasingly registering emotional support animals to get around pet restrictions if needed. Therefore, it benefits the owner to allow pets if it is handled through a well-managed process up front.

Paragon can arrange to accept pets at properties as owners see fit, at no additional cost to the owner. Owners can also choose to allow cats only, which can often be an easier fit for multi-family properties. Managing properties and tenants with pets requires additional efforts from the property manager. Therefore, if pets are allowed, Paragon will collect an administrative pet fee from the tenant with an amount based on pet details such as type, size, age, breed etc. Paragon will monitor the pet situation and will verify the condition of the unit during our regular periodic preventive maintenance inspections. In the rare case should there be any pet-related damage from a pet that we approved, Paragon will cover the owner up to \$1,000 per lease, on any damage that is not covered by the tenant.

Service and Support Animals - Note that in accordance with Fair Housing Laws landlords must allow reasonable accommodation for a disability service animal as well as a documented emotional support animal, regardless of any “no pets” policy. We can only deny accommodations to service or support animals if they threaten the property or other residents.

Housing Agency Rent Subsidy Programs

Rent subsidy programs can be beneficial for property owners that wish to make their apartment available to wide pool of applicants and to secure steady rent income. These programs can take a lot of administrative effort, coordination, and require investing in repairs to pass annual inspections. We are very experienced in managing through this process with these agencies. Although it is more effort, we find that it is overall a good approach to include depending on your property and market.

The most common program we work with is the Housing Choice Voucher program through the US Housing and Urban Development (HUD). This program is commonly referred to as Section 8. This federal program is administered by the local public housing authorities. The local authorities we work with are Chicago Housing Authority (CHA) and Housing Authority of Cook County (HACC).

Here is an overview of the benefits and factors to consider regarding these programs:

Benefits of subsidy programs

- Rent paid directly by government agency provides a stable and reliable rent source
- Tenant has incentive to comply with management since they can put their subsidy at risk if they violate the lease or their family obligations as required by the program
- Allows for larger pool of prospective renters
- Subsidy tenants tend to stay for longer.

Unique aspects of working with subsidy programs

- Paperwork – lots of paperwork and documentation required
- Time - takes time for initial inspections and approval (45-60 days)
- Inspections and repairs - initial and annual inspections with repairs required to address items

- Coordination – requires tedious, and time-consuming coordination efforts with various agency personnel, case workers, inspectors.

The agency reviews a tenant’s financials and establishes a Housing Assistance Payment contract for owner to review and approve before the tenant is finalized. The amount covered by the agency can vary from the entire rent payment or some portion of it.

Owners should plan for repair costs to pass the initial inspection as well as each subsequent annual inspection. Regardless of the quality and condition of the unit, the inspectors nearly always find items that they request repaired. Expectations from each inspector can vary as they interpret the inspection guidelines differently.

The effort it takes to work through the various steps with an agency is above and beyond the efforts in securing and managing a standard tenant and therefore we have some minor fees we apply as detailed in our Fees List. However, as mentioned, we find that despite the additional efforts, this is a worthwhile approach to include.

Tenant Screening

We have a thorough tenant screening process that helps us to select the best tenants from the pool of applicants. Here are the basic guidelines of our process:

- Applications - Applications are required for all members of household over 18 years of age. We provide convenient online applications.
- Income requirements - Monthly household income of at least three times the rent amount unless the prospect has a rent subsidy.
- Background and credit checks - Background and credit checks processed through Transunion
- Verifications – Verification of reported income, prior landlord verifications when possible. Review all supporting documentation including drivers license/ID, SSN documentation, etc.
- Meeting – In office meeting/interview with entire household, including all children

We find our thorough process to yield good results in tenant selection. However, please be aware that regardless of how thorough our process is, we may still encounter tenants that end up not working out. Sometimes tenants encounter unforeseen financial or life challenges and issues arise.

Fair Housing and Non-Discrimination

We conduct our leasing in a manner to be compliant with applicable laws. The Chicago Fair Housing Ordinance (CFHO) prohibits discrimination based on race, sex, color, age, religion, disability, national origin, ancestry, parental status, sexual orientation, gender identity, marital status, military status, and source of income.

The Just Housing Amendment to the Human Right Ordinance prevents a landlord from considering a criminal history more than 3 years old and requires an individualized assessment of any criminal history less than 3 years old.

Renters Insurance

Based on our experience with multiple fire incidents at clients' properties, we require all of our tenants to have renter's insurance and we actively monitor and ensure compliance. Tenants without insurance can be severely impacted with their personal property damaged and needing financial assistance to cover temporary housing. Tenants in such a difficult situation will often pressure the owner and property manager to take some responsibility for the impacts or to help them financially in some way. This can lead to numerous headaches for the owner, manager and even put the property at further risk due to the tenant.

Therefore, to implement property management best practices and protect our tenants and owners, we have implemented the following approaches regarding renter's insurance:

- Renters insurance required on all leases.
- Implementing a process to verify initial compliance and monitor ongoing compliance with our renter's insurance requirement.
- Established a master insurance policy to provide tenants an easy option to obtain insurance at a competitive rate.

To help implement this across all leases we implemented our Resident Benefits Package which includes renter's insurance as an option along with many other benefits. Tenants are allowed to obtain renters insurance from any acceptable insurance carrier but we give them the option to quickly and easily enroll in our master insurance policy at a competitive rate as part of our Resident Benefits Package.

Resident Benefits Package

We require all our tenants to enroll in our Resident Benefits Package which includes many features which are very beneficial to our Owners.

These benefit to Owners from this program include:

- Renters Insurance
 - Ensuring owner has coverage for negligent tenant-caused damage and prevents tenant from seeking support from owner in case of incident.
- Credit Building
 - Report tenant's on-time rent payments to credit bureau to help tenants improve their credit score. Owners benefit from increased on-time rent payments. Also, tenants with better credit have more financial options and flexibility when issues arise, further helping to ensure on-time rent payments. This also helps attract responsible tenants that appreciate this benefit.
- Identity Protection
 - Reduce potential interruption of rent payments due to tenant financial impacts from a tenant's identity theft.
- Utility Concierge
 - Move-in concierge services to help tenants conveniently activate utilities as well as cable, internet, alarm services.
- Furnace Filter Delivery

- For units with furnaces: filter delivery every 90 days. Helps tenants comply with filter replacement, decreasing HVAC repair cost and lengthens life of HVAC system.
- Resident Rewards Program
 - Tenant rewarded for paying rent on time, increasing on-time rent payments

Tenants also get the following additional benefits they can only get by renting from a professional property management company such as ours:

- 24/7 online maintenance reporting through Resident Portal
- Access resident accounts, documents, and communication resources on online Resident Portal
- Easy and convenient online payments and recurring payments on Resident Portal
- Vetted vendor network to ensure all technicians sent to the property are reputable, licensed, and insured for all repairs.

We provide this program at no additional cost to our owners. Tenants pay \$36 per month. Should a tenant obtain and maintain their own insurance the monthly fee is reduced to \$25.

Risk Mitigation Program

After a decade of experience managing property throughout Chicago, our experience has shown that tenants with lower credit scores are more likely to create a higher workload and risk for us as manager. Therefore, we apply a small monthly charge for any tenant with a score 649 or lower starting at \$10 per month and increasing gradually for lower score ranges. This is a minor offset to our additional management workload, allowing us to be able to accept a broader range of properties for management and keep our consistent low management fees to owners.

Tenants have the option to apply to reduce or remove this risk mitigation charge with an improved credit score. By reporting on time rent payments through our credit reporting program discussed above we help tenants to achieve this.

Security Deposits

Our standard requirement is a security deposit of 1.5 times the monthly rent. This helps to ensure that the owner is covered in case of damage or loss. We manage this process local laws which make this difficult.

Here is some background on the relevant local law:

The Chicago Residential Landlord and Tenant Ordinance details specific requirements that any landlord must abide by related to security deposits. If a single aspect of the numerous strict requirements are not followed, then the landlord can be responsible for refunding the tenant's entire security deposit along with a penalty of two times the security deposit, as well as all court fees and the tenants attorney fees. By collecting security deposits, an owner puts themselves at significant risk. There are many attorneys actively seeking out tenants to represent for free if a security deposit has been collected as these cases are typically easy for them to win and have all of their fees covered by the landlord.

Regardless, we take the extra steps to ensure proper compliance with the law.

Security Deposit Waiver Program

To give our prospective tenants more options we offer a Security Deposit Waiver Program. This gives the tenant the option to pay a small monthly amount (determined based on the tenant's credit score) to waive the requirements for the security deposit. In these cases, we cover the owner for any applicable damage or loss up to the security deposit amount. We take the risk in this case but can spread our risk across our large portfolio. The program benefits our owners since it allows tenants to maintain more funds on hand to manage finances (and to pay rent with), and helps the apartment be more attractive to tenants by reducing their up-front cash outlay, while still ensuring the owner has a standard level protection in case of issues.

Move-Out Condition

When a tenant moves out there may be reasonable wear and tear on the apartment and its best practice to make repairs and repaint if needed, to attract a good new tenant. Note that the law allows for reasonable wear and tear and its often not worth the effort to over analyze the condition of the apartment and try to claim a couple hundred dollars of repair costs to the tenant for items that could be disputed as reasonable wear and tear. However, we do include a repair fee rate sheet with every lease and if there is significant and legitimate damage or issues that can be claimed, we can make a claim against the security deposit if needed. This is also a much easier process for the owner if we are covering the security deposit under the Security Deposit Waiver Program.

For damage beyond what is covered by the security deposit we find it's usually not worth trying to take the tenant to court over it to gain a judgement and then try to collect on it. The effort and legal costs are usually not justified, but we can coordinate legal efforts at the owner's expense if desired.

As mentioned in the section on preventive maintenance, we perform periodic apartment inspections and will notify the owner of any concerns. These inspections help prevent unknown significant damage from being discovered upon move-out.

As mentioned in leasing section, a vacant, repaired, clean unit will show significantly better allowing us to attract the high quality tenant we and our owners are seeking. Therefore, it is our typical approach to only lease up units after they have been vacated, repaired, and cleaned. In rare cases we can try to accommodate leasing while the current tenant is still in the unit.

NEXT STEPS TO INITIATE MANAGEMENT SERVICES

Thanks for reviewing this overview of our management processes. If you are interested in moving forward, here are the next steps:

- Review Management Agreement and Fees List
- Schedule a call
 - Call our office at 773-913-2031 or email our lead property manager at nathan@paragonpm.net
 - Provide property addresses and basic information prior to call.
- Prior to start of management we will need these items:
 - Proof of Ownership - recorded deed, bill of sale, etc.
 - Management Agreement and Fees List - completed and signed
 - IRS W-9 form - completed and signed
 - Disclosures – for Lead Based Paint and Radon, completed and signed
 - Insurance – copy of property policy, listing Paragon as additional insured.
 - Utilities - copy of all utility bills that the owner is responsible for
 - Leases - and housing subsidy contracts if any
 - Tenants - contact information, and delinquent amounts, if applicable
 - Funds – initial funds per the Reserve Guidelines table.
 - Once management agreement received, our office will set up owner profile in our property management software (Buildium). Funds can then be submitted through your Buildium owner portal.
 - Keys - to access all doors, if available

Owner Confirmation

I confirm that I have reviewed and agree with the business practices outlined in this document

Owner:

Signature

Date

Name



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