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Stop the Music

Working to break the musical chairs of revolving management companies

By Weldon L. Brown, CPM, CCAM

In the course of my business, I get callers asking if I am interested in managing their association. The first question I ask is, "What's wrong with current management?" Their answer is, "They don't do what we think they should be doing."

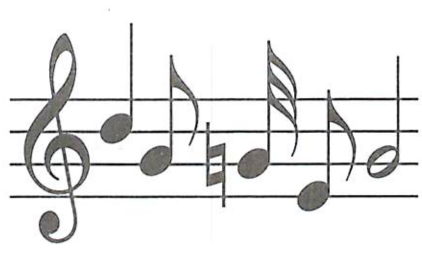
This question typically opens a Pandora's box of accusations that their management firm isn't performing up to their expectations and anticipations. The litany of concerns about expected performance usually includes unrealistic demands and poor communications: management doesn't return calls, they don't complete all tasks on a timely basis, and they don't do what we want them to do. Unrealistic expectations and anticipations comprise the formula that always sets one up for failure.

However, often management may perform 98% of the action items, but the association's board of directors only remembers the 2% incomplete.

Listening to these concerns, it becomes clear that performance of management is measured by a subjective list of expectations and anticipations that have not been mutually agreed upon or even discussed. Expectations and anticipations of the board (composed of lay people with little business experience and knowledge of what a Community Association Manager (CAM) needs to do to perform) are not clearly detailed in the management agreement with realistic objective measurement standards.

The end result is the association seeking yet another change of management. I call this repetitive cycle of changing management firms the "musical chairs" phenomenon, which ultimately benefits neither the association nor new management. It does demonstrate an absence of a concise understanding of the needs of the association and the cost of meeting those needs with professional management.

Boards and management often fail to communicate their unhappiness with each other. Boards will embark on the process of seeking new management without having first exhausted all efforts to make the current relationship work. When asked if management knows that the Board is seeking new management, the answer often is no.



The search for the right CAM is a daunting challenge, the selection process being more complicated and time-consuming than one might suspect. The problems that cause the board to seek out new management more often have to do with the dynamics of the people on the board or a controlling President that runs over the directors rather than with management.

What's wrong with management companies? To begin with, they take on too many associations in order to secure a reasonable livelihood because they are grossly underpaid for what they are expected to do. Board members are more willing to pay their auto mechanic the industry hourly rate than their CAM/Asset Manager responsible for a multimillion-dollar community. CAMs are professionals in a service business. The more time expended in providing a service, the greater the cost of the service. Is it unrealistic to expect unlimited full-service contracts for a fixed monthly fee? Our time studies reveal that a typical 100-unit planned development requires an average of forty (40) man-hours per

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month. Associations demand and CAMs agree to provide more services than they can realistically or economically perform and stay in business.

The first question that the board usually asks is, "What is your price per unit?" The answer is grounded in how management firms are expected to compete. Boards expect CAMs to quote their services within a "per-unit," fixed-fee contract. This is probably because all costs end up on the association's budget at a price-per-unit. Boards, however, don't ask for insurance, legal costs, annual audits, landscaping, pool, spa and other contract services to be priced per unit. The problem is that neither boards nor management firms analyze or realistically estimate the amount of time it will take to perform the services desired. They ignore the basic business principle that "time, like money, is a commodity," and that, ultimately, management fees fall short of a 10% profit, plus the funds needed both to attract and retain quality employees with expected benefits and to cover the costs of doing business.

Another topic is "What is good management worth?" CAMs are, in fact, asset managers. What is an asset manager? Someone who manages a property with an eye towards improving the value of the property so the owners' asset increases in value! This role is analogous to the role of a fund manager whose job is to increase the value of your portfolio of investments. You do not select your mutual fund or investment portfolio manager based on the lowest bid. If you needed heart surgery and future maintenance, do you select the doctor with the lowest bid to operate? The knowledge and expertise of a CAM is comparable to a paralegal. An association's general counsel's paralegals are often charged back to the association at a higher rate-per-hour than the association is willing to pay the CAM.

Boards don't realize that CAMs do more than manage real estate "property." They are called upon to perform services that impact the value and character of a community. Good management is more than sending out form letters for parking, pet or other violations. Association members often portray CAMs as the "bad guys" who just send violation and late letters. They are only the people who "harass" residents who don't follow the rules and regulations.

The value of good management transcends more than administrative tasks such as collecting delinquent accounts, sending out notices or making quick, cheap repairs. Many association residents do not understand why service providers - such as landscapers, pool service, air-conditioning contractors, carpenters, roofers, electricians, plumbers, handymen, etc. - are expensive and so independent.

A professional CAM is usually backed up by a company staffed with numerous talented people participating in the management package. These unsung representatives, whom the HOA board and members never see, can represent as much as 60% of the management process. The majority of their time is spent keeping the board in compliance with the Civil Code and Corporate Code laws so it is not at risk to management failures and meets the fiduciary duty it owes the HOA members.

The boards' attitude is often that these service providers should be thankful for the work they are given. We are, however, still in the midst of a booming economy with very low unemployment. Getting good tradespeople at a reasonable price-per-hour-plus-material to perform quality work in a timely fashion is extremely difficult today, adding to negativity of boards toward their CAM.

It's time to break the "musical chairs" cycle and address what's wrong with community association management in California. This step will ensure the future viability of the industry in our state. This process starts with the question, "What's wrong with management?" The next step for all to learn is that "time is a commodity," and management costs are determined by time, not price-per-door.

A group of CEOs active in CAI-Inland Empire has been wrestling with this complex question. We have reached the realization that it is time for CAMs as a group to discuss the problem in our industry that plagues both Boards and CAMs.

Our group of CEOs will be addressing a number of the issues and questions I have raised. The end result will be a better understanding of how we collectively can make our communities better places to live and the Community Association Management industry a better career opportunity and a place to work.

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