Average Executive
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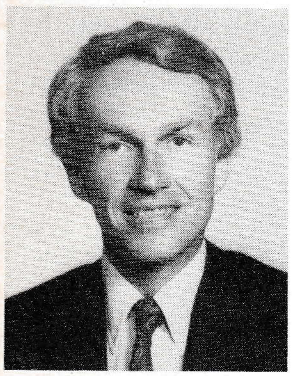
What You Should Know About Condo Management



Owners of a new condominium are advised to seek professional management expertise when their community association takes over management responsibility from the developer.

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EVERY KIND of real estate has to be managed. Even the ivy-covered cottage in the suburbs needs someone to mow the lawn, rake the leaves, and shovel the snow from walks and driveways—or arrange to have it done.

Someone has to pay the bills for electricity, gas and water and arrange garbage pickup. If the roof, furnace, water heater or water faucet need repair, someone has to arrange for it, see that it is done and has to pay for it. Somebody has to set aside funds and then pay the taxes and insurance premiums.

In the single-family home the owner is usually the manager too.

Can Be Complex Job

The task is more complex in a high-rise condominium or cooperative building with hundreds of apartments or in a complex of several buildings or townhomes in one development that involves a number of residents commonly sharing the ownership of property. Whatever its physical characteristics, the condominium or cooperative is usually a development that costs millions of dollars to build and takes hundreds of thousands of dollars to operate.

Like the single-family home, it has to be managed, a task that is the legal responsibility of the community (or owners') association, to which all unit owners belong.

The management tasks include many of the same jobs that a homeowner faces—and then some. The condominium, because of its size and complexity, has many additional things that have to be done and more people to supervise. The details of the management task will be explained a bit later on. On top of seeing that everything is done properly, the management person has another job on his hands that a homeowner doesn't have to face. That's the task of satisfying the numerous owners, a monumental task in itself. Management of a condominium or cooperative, in which residents are the owners, is far more difficult than managing a rental property, where the residents have no say in the policies established for the building.

Three Management Options

When the condominium or cooperative is being built and for some time afterwards the developer is responsible for the management. He usually hires a professional management company to do the job for him while he attends to the business of completing the construction and sales program. At some point, though, the management of the property becomes the responsibility of the new owners, organized as a community association. The association's elected board of directors takes on the management challenge. At this point the board has several options open:

• Run it themselves. This usually is the most tempting option, because by taking it, the board immediately reduces the budget by doing away with the management fee. It's a good choice if the board members have the time, knowledge, and skills for the job. The larger the property, the less likely that "do it yourself" will work. Frequent changes in the board's membership interrupt continuity and make this approach difficult.

• Hire a full-time on-site manager. This may be a good idea if the property is large enough to justify the pay of such a person, and if the board can arrange for back-up when the manager is sick, away on vacation, or quits for a better job.

• Retain professional management. In this way, the board buys the experiences, skill, knowledge and manpower to do the job right. Professional management is especially recommended where the property is complex, involving time to supervise, control and maintain. It's also recommended when the building is not large enough to justify its own full-time manager and where the board is unable to cope with management challenges.

What Management Does

To understand why management is so important—why, in fact, it can make or break a community association—consider the many things that management or the manager usually is required to do:

• Collects the monthly assessments from the owners.

• Collects payments due from concessionaires in the building, such as laundry and valet services, etc.

• Maintains records of all receipts and expenditures for the association.

• Submits a monthly statement to the

board of directors showing receipts and disbursements.

• Submits a statement to the board of directors each month showing the balance or deficit in the agent's account for the association.

• Prepares a recommended budget for the next year to the board, showing anticipated receipts and expenditures.

• Submits a yearly cumulative report of receipts and expenses to the board.

• Arranges for the maintenance of the property, including cleaning, painting, decorating and other annual maintenance and repair work, subject to the direction of the board and at the expense of all owners.

• Hires, fires, supervises, and pays building employees. These people are employees of the building, not of the agent. Their salaries, taxes and other expenses are operating expenses of the association.

• Files returns and reports for building employees required under the Federal Insurance Contribution Act, Federal Unemployment Tax Act, Subtitle C of the Internal Revenue Code of 1954 and the state laws and regulations.

• Makes contracts for water, electricity, gas, telephone and other services required for the common elements.

• Purchases equipment, tools, appliances, materials and supplies for the operation and maintenance of the association, at the expense of the owners.

• Pays out, from the owners' funds, all taxes, building and elevator inspection fees, water rates and all other charges incurred in the maintenance and operation of the association on behalf of the owners.

• Cooperates with owners in investigating and reporting all accidents or damage claims relating to the common elements of the building.

• Coordinates the move-ins and move-outs of condominium owners.

• Maintains a custodial account for all money collected on behalf of the owners.

These are general management duties that are spelled out in most contracts between the management company and the community association. If the association doesn't hire a professional management company, these tasks still have to be done by someone.

What Management Doesn't Do

Depending on the contract, the management company may have other

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tasks to perform. But as a general rule, the contract spells out what the management company or the manager does *not* do, such as:

- Act as liaison between each owner and the developer in seeing to it that construction work is completed, or in preparing or checking punch lists for owners.
- Maintain or repair any item of the individual apartments in the building; these are the responsibility of the owners.
- Supply an audit for the yearly expense report.
- Collect delinquent assessments, other than sending notices of delinquency; delinquencies are turned over to the association's legal counsel.
- Advance any funds to or for the owners to pay outstanding bills.
- Follow instructions from any owner other than the president of the board of directors.
- Make any structural changes in the building, alterations, or additions, unless in an emergency which threatens life or property.
- Assume responsibility for compliance of the association or any of its equipment with the requirements of any ordinances, laws, rules, or regulations, other than to notify the developer or the board of any notices or complaints relating to noncompliance.
- Does not represent the owners in legal proceedings against the developer or in any court proceeding relating to environmental protection, fair housing, fair employment and similar laws.
- Does not provide legal advice, free appraisals, or real estate brokerage services for the owners.
- Does not file federal or state income tax returns for the condominium, or dispute taxes before government agencies.

Basis of Fee

For their services, the managing company receives a monthly fee, payable in advance. The fee may range anywhere from 5% to 16% of the gross assessment (the total of all individual assessments). The percentage of the assessment represented by management fee depends on the size of the assessment. Generally, the higher the assessment, the lower the percentage represented by management fees. This is because management costs are projected on a per-unit basis.

This range of management fees may seem high, but remember that the fee covers highly skilled professional services. The cost of one serious mistake caused because the association did without a professional manager might well pay for an entire year's management fee, possibly more.

From this description, it should be apparent that property management of a community association is a demanding job.

The demands are complicated by the fact that community associations and condominiums are brand-new to most residents, many of whom are former single-family home owners who are experiencing life in a multifamily building or environment for the first time. The remainder are mostly former renters who expect they'll get the same kind of service in a condominium they received in a leased apartment; or they are former single-family homeowners looking for "totally carefree living."

Early Period Critical

The problems of adjusting to condominium life—and consequently to the problems of management—are especially difficult during the first 18 to 24 months of a new condominium. Not only does the building have to be completed and "shaken down," but the residents have to become conditioned to condominium living.

Also, because condominiums and community associations are relatively new, the accumulation of management expertise also is new. There's a shortage of experienced association managers compared to the rental management field which has existed for generations.

Condominiums today are where FHA-assisted buildings were in the 1960s. At first, the only concern was with getting these FHA buildings rented and occupied. Nobody thought about long-term management. Many FHA buildings suffered because of this neglect. Condominium owners are now at this stage. But because they own their units rather than rent them, they have more at stake.

A mature and stabilized community association doesn't just happen. Usually the association has to go through two earlier stages, which might be characterized as "infancy" and "adolescence."

Infancy: Infancy covers the period between the time the first owners move in and the developers move out. During this time, owners are excited about their new way of life and are busy furnishing and improving their units. The developer, like a mother or father, takes care of whatever maintenance needs to be done, and the management company hired by him keeps the place running smoothly. Monthly assessments are generally low, possibly artificially so since the developer may not have allowed for future major repairs and replacements.

As long as the developer is in control, there is usually lax or nonexistant enforcement of rules and regulations. The developer has enough problems on his hands just trying to sell the building.

Adolescence: Now comes the awakening, usually when the developer no longer dominates the board. The developer in fact may no longer be involved at all if all the units in the condominium have been sold. Like an adolescent, the association seeks to assert its independence.

At this point the owners realize they have to run the community association. They may not have had any experience. Usually they have some gripes against the developer, so the first thing they do is fire the management company hired by the developer and either hire another or else attempt to manage by themselves to keep costs down.

As part of the adolescence, the board finds that money assessments aren't adequate to meet expenses, but the owners resist increases. Some owners have sold and moved out without notifying the board, leaving new owners who are unfamiliar with their obligations. Other owners hold back on paying their assessments. Rules concerning parking, pets and maintenance standards continue to be violated, and owners demand strict enforcement.

Members of the board who thought that running a condominium was easy now find themselves frustrated and harried. Some resign. Some sell and move out. About this time the owners begin to realize their condominium association is in jeopardy; they determine to do something about it.

This realization may come about when owners discover that because of poor maintenance, lax enforcement of rules, careless management, and a declining financial condition of the association, the resale price of their unit is now less than expected. Expecting a profit when they sold, they may face a loss. Other owners, seeing this, are motivated to strengthen the community association's role.

Maturity: About this time, the owners come of age. But how long this takes to occur or whether it happens at all can vary.

Some owners learn quickly and are able to straighten out their condominium with a minimum of trouble. The more time it takes, the worse the position of the condominium becomes. A few condominium associations may never make it, with the result they could be in serious financial jeopardy.

All of these things are involved in the association's coming of age. The most important element is the realization that the association needs full-time administrative expertise to operate the condominium, and that this expertise is not available from the board of directors.

Hiring Professional Management

The board of directors of the owners' association can set policy and make rules, but it simply isn't set up to carry out the day-to-day affairs of the condominium. For this, the association needs a Certified Property Manager (CPM), an Accredited Management Organization (AMO), as designated by the Institute of Real Estate Management, or someone else with similar professional credentials and expertise.

An association can often make a serious mistake by hiring someone who calls himself a "professional" without credentials. There have been cases where so-called professionals have skipped out with the association's funds. This has led to law suits and all sorts of trouble. If he had been with a professional organization, he would have been bonded.

Much of the association's awareness of the need for good management stems from the developer. If he has involved good management from the start, and if he has educated the board of directors to its responsibilities and needs, chances are that the association will be able to carry on efficiently.

Sometimes developers ignore management to the point where they don't even build the physical facilities a manager needs. Instead of having an office of his own on site, the manager winds up in a corner of the laundry room, garage or the recreation room. Or, if the property is large, the association has to build a separate facility for the manager, which the developer should have provided.

If the manager doesn't have the right facilities in the proper location on the development he can't do his job, and the condominium suffers.

Professional Staffing Guidelines

A condominium of 150 or more units needs a full-time on-site manager; the community association can't do this job. A secretary-receptionist is needed in addition to the manager for condominiums with 300 or more units. In both cases a professional management organization is needed for back-up. If a condominium is smaller than 150 units, the management organization possibly could arrange for part-time on-site supervision.

People ask why a condominium needs an on-site manager and a management organization. Why not just the manager? The reason is that there's too much for a manager to do alone. He has to make physical inspections of the property daily, supervise the maintenance people, draw up specifications for work to be done, take bids and award contracts for maintenance and repairs, see that illegally parked vehicles are towed away, enforce other rules and carry out the instructions of the board of directors.

The Intangibles

Somewhere between the formal requirements and exclusions is a critical intangible: the manner in which the manager executes the job.

A skilled management organization is sometimes at its best as a skilled educator, communicator and insulator. A part of the education process affects the relationship between the board and the property manager. Some boards want to get into all things, including the manager's tasks such as purchasing up to established budgetary limits, hiring and firing or maintenance. Here wisdom suggests that if the board will not recognize its bounds the manager must then learn to operate cooperatively on those terms.

In our experience we have found that *communications* is the key to a well-run condominium association.

A good, tuned-in manager is in an ideal position to function as a conduit between the owners, with whom he has day-to-day contact, and the board of directors, who are responsible for implementing budget policy, rules and regulations.

The manager can sift what he hears and relay to the board those concerns and sticky situations that are the proper domain of the board.

By the same token, a good property management company must also insulate the board from the minor day-to-day vexations such as pet problems, past-due assessments and other infractions of the rules and regulations. Any chronic problems of this nature must be reported. But after a policy has been established, such as on the collection of past-due assessments, it should be relayed to all owners in a calm, clear and businesslike manner, as befits a good communicator.

Realizing that time is money, an effective property management company must make sure it focuses its time correctly with both groups; and that focus should be on policy matters. When dealing with individual owners an effective manager will try to take care of service problems and complaints. But if the owner begins to challenge policy matters he must be quickly referred to the board for an airing of grievances. There is nothing a property manager can do to change policy, and it is senseless to spend time and money on matters he can't alter.

Meetings and Committees

Another function of good management is to conduct smooth-running meetings. The board president should be encouraged to publish an agenda, supported by appropriate backup information necessary for directors' decisions, 72 hours prior to the meeting. The management company should also provide a bundle of information 72 hours in advance, including a property report, description of work performed since the last meeting, lists of items that need attention, contracts to be considered and long-range budget goals to ponder. Robert's *Rules of Order* must prevail.

A property management company should, in our view, encourage and assist in the creation of working committees. Committees, like communication, maintenance, insurance, rules and regulations, recreation, and the all-important budget committee that sets the assessment for the following year and specifies the standard of services which will be bought, have two added values. They serve as good sounding boards in discussion areas for board consideration and they are good training grounds for future directors.

An effective management company should also be a catalyst for the growth and continuity of a condominium. Time passes and needs change. Every board that is elected is unique and distinct from the one that preceded it. One board may be running a cost-cutting platform while another may choose to spend money to improve the lobby and hallways. The manager must be flexible enough to work with the shifting tides.

At the same time, the manager must strive for continuity of concern for long-range repairs and maintenance. Abrupt policy changes frequently produce resentment by the resident owners.

Costs Produce Benefits

You get what you pay for in buying professional management.

Some associations throw out the developer's management company as their first action, because they have a grudge against the developer or else they think the management company is making too much money. Many of these associations have been through two or three management changes since, always seeking to get a better job for less money, which is impossible. They really don't know what to expect, because no one made it clear to them.

Part of the problem involved in convincing the association of management's value is the relative youth of many condominium owners. About half of them are young childless couples in the 25-to-34 age bracket; the rest are couples 45 to 64 years old who no longer have their children living with them.

Younger owners resist the idea of paying a large reserve into the assessments account, money needed for top management and to cover future needs such as replacement of the roof or heating plant. They figure they will have moved up by then, so why pay for something from which they won't benefit? Some people who buy retirement condominiums in Florida think the same way. What they don't realize is that by failing to provide for the future that may be 10 or 15 years away, their condominium unit may not be worth as much five years from now.

While it's well and good to be conservative in condominium management, frugality has its limits. A delicate balance has to be drawn between what's needed to run the condominium and penny-pinching for its own sake. It's not easy for owners to see the difference.

Helping the Managers

Professional management can't guarantee a better association by itself. There also has to be a strong board of directors supported by the owners plus the willingness to increase assessments and expand budgets to pay for immediate and long-term needs. Given these, the association can help provide for the health and stability of the property for many years.

To be most effective, the professional management company and individual manager needs the cooperation of all members of the community association. Here are some suggestions:

• As noted earlier under the duties of the manager, he is responsible to a single person designated by the board of directors, usually the president. All instructions to the manager, and all complaints, should go through this person. The manager should not be at the beck and call of every individual owner or board member. If this happens, the manager is constantly kept running, and his lost time costs the community association money.

• Owners should not tell the building employees what to do. The manager is the sole supervisor of these employees. If an owner sees something amiss—a dirty wall, cigarette butts on the floor, etc.—he should get in touch with the management office and make his complaint known.

• Is the managing agent on the premises hard to get hold of? That's probably a sign that he's doing his job. The conscientious manager will be out on the property, checking schedules and seeing that the staff is doing its work. Owners shouldn't expect to find him in his office all the time. If he is needed, leave a message.

• It's tempting to offer a building employee a tip to get him to do something in an apartment, such as changing a bulb, fixing a shade, or moving furniture. But when an owner does this, he's cutting that employee's efficiency, taking him away from his regular duties, and cheating the other owners of his paid-for services. Also, once the tipping habit gets started, an owner may find that another owner tips more than he does, and the employee gives him all the attention.

• Don't hold the community association or the management company responsible for taking care of the interior of the condominium unit. Some condominium owners think that because they're paying for maintenance, this covers the interior of their units as well. So they try to call on the custodian to fix a leaky faucet, put a sliding door back on the track, or make other repairs.

Maintenance of the inside of a condominium unit is the owner's own responsibility, just as the care of the inside of his house would be. If owners persist in calling on maintenance crews to handle their individual unit problems, they are draining the budget for building maintenance.

However, some associations are providing a minimum time per month to unit owners to take care of dripping faucets, servicing air filters and condensate lines and replacing light bulbs. Anything over minimum time is charged back to the owner.

• Owners should contact the developer, not the management company, for complaints concerning the construction warranty of the unit. The developer originally hires the managing agent to manage the physical structure of the building. However, the developer, not the manager, is responsible for construction. In buildings newly completed or still under construction, residents will frequently badger the managing agent about warped cabinets, doors and windows that stick, cracking walls, and the clutter from construction debris in the hallways. The manager has no control over these things, although he frequently is blamed for them. The residents should actually contact the developer on construction matters.

Even after the community association takes over from the developer and the board assumes the managing agent's contract, the manager still has no power to act on construction matters—unless the association specifically gives this power in the management contract.

• Even though an owner may be upset with the property, the developer, the manager, the board of directors, or things in general, he shouldn't take out his ire by withholding his assessment payment. If he does this, he will only penalize himself as well as the other owners. The law imposes on each owner duty to pay his share of the expenses for the common elements. If he should fail to do so, the law will allow the board to place a lien on his unit for the amount of the payment. In addition, operating expenses must be curtailed, affecting services to everyone, or money must be borrowed to meet these costs, which could, in turn, raise each owner's assessment the following year. The association suffers as a result, and the value or selling price of each unit may be lower when it is sold.

These are simple enough suggestions. By following them, the members of the community association can help the professional manager do a better job of serving the association, thus helping each owner enjoy the kind of life and peace of mind he is seeking. □