

## **HOAs or No Way?**

### **The Pros and Cons of Adding Association Management Services**

Scott P. Brady, Owner of Progressive Association Management

#### **1. Why Consider Adding HOAs**

- a. Big
  - i. 350,000 HOA Communities in the US
  - ii. 30,000,000 Owners
  - iii. Every New Community is an HOA in California
- b. The Blue Ocean
  - i. Fewer Competitors
  - ii. Poor Service is the norm
- c. Few Self-Managed
  - i. Too Complicated
  - ii. Board Can't be Compensated
- d. The Wild West
  - i. No License Required
  - ii. No Regulatory Body Oversight (in CA)
  - iii. The Big Companies Have Bought the Mid-Sized Ones

#### **2. The Cons**

- a. It is the penny business.
  - i. Average gross base revenue per door of \$276
- b. Boards don't get along.
  - i. You get caught in the cross fire.
- c. Tough to get positive reviews.
  - i. You may please the board and anger the owners.
- d. You enforce the rules, the "bad" cop.
  - i. You execute the will of the board.
- e. Different laws, forms and vendors than residential.
  - i. You have to learn the new rules.
- f. You may not be interacting with the kindest people.
  - i. 50 associations equal 2,500 owners.

#### **3. The Pros**

- a. The bar is low.
  - i. Industry littered with bad association management companies.
- b. Feeds other business units.
  - i. Generates residential doors and significant bank credits.
- c. You are just Switzerland.
  - i. You don't make decisions; you implement the board's will.
- d. The human connection.
  - i. You get to know the board intimately.
- e. A long relationship.
  - i. You may manage a board for a very long time.
- f. Insider knowledge.

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- i. No one will know that community better than you.

#### **4. The Marketing Pitch**

- a. We are licensed professionals.
- b. We care about your community.
- c. The biggest association management company is not necessarily the best.
- d. Don't blame your current Community Manager, blame their company.

#### **5. The Board Pain Points**

- a. They want to comply with state laws.
- b. They don't want to be the "bad" cop.
- c. They don't want to be blamed for letting the community go.
- d. They don't want to disappoint other owners.
- e. They don't want to over pay for management.

#### **6. The Typical Business Model**

- a. Community Manager paid 25 to 30% of base fee.
- b. Manager must manage 10 to 20 HOAs.
- c. Manager must manage 1,000 to 2,000 owners.
- d. Manager W-2 working 9 to 5.
- e. If they do well, get promoted to bigger communities.

#### **7. Our Marketing Magic Pixie Dust**

- a. Our Community Managers manage no more than 4 HOAs.
- b. Manage no more than 400 owners.
- c. Our Managers paid 50% of base fee.
- d. Our Managers Independent Contractors.
- e. No chance of them being promoted.

#### **8. Marketing to Associations**

- a. Acquisition cost of \$14.96 per owner
  - i. \$45,000 in marketing
  - ii. Offset by "set-up" fee
- b. Direct Mail "Awe and Shock"
  - i. 1 month educational
  - ii. Next month selling
- c. Database of Presidents
  - i. Secretary of State
  - ii. MLS
- d. The Marketing Math
  - i. Gross income 10 (residential) to 1 (HOA)
  - ii. Net income 6 to 1
  - iii. Net net of 4 to 1 after deducting acquisition costs

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- e. Delayed Gratification
  - i. Can take months for marketing to work
  - ii. Can take months for the board to make a final decision
  - iii. 9 months from discontent to a client

## **9. Turning Pennies into Dollars**

- a. Income Sources
  - i. Base management fee
  - ii. Escrow fees
  - iii. Late and Lien Fees
  - iv. Reimbursables
  - v. Bank Credits
- b. The Numbers
  - i. \$385 gross revenue per year
  - ii. \$161 net income
  - iii. 41% net profit

## **10. Lessons Learned**

- a. Make it a separate company
- b. Know the laws
- c. Be picky about which associations you manage
- d. Know your numbers to price properly
- e. Nail the transition

## **11. Four Reasons to Avoid HOAs**

- a. Must have the resources and staff
- b. Need to separate the HOA functions
- c. Helps immensely to have the bank credits
- d. Best to have a better distribution system

## **12. Final Thoughts**

- a. Easy to go from 39 to 40 HOAs, hard to go from 0 to 1
- b. Easy to start a residential property management company but hard to be successful.
- c. Hard to start an association management company but easier to be successful.

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