

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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