The Pros and Cons of Self-Management

by Gary A. Poliakoff, J.D. and Ryan Poliakoff

Dear Poliakoffs,

I enjoy your column and the education it provides! Thank you for doing a good job. I am a volunteer on the board at my commercial office complex in the Daytona Beach, FL area. We recently terminated the contract with our management company. They were not providing us with good service and, in several instances, actually caused harm to the association and owners. We are considering self-managing the property since all but one board member are owner-occupants and on the property all day.

We've done some research on the legality of such and cannot get a clear answer. A couple of options we've considered are to nominate one person to have a dedicated cell phone with access to all of the resources (company names for electrical, plumbing, irrigation, etc.) to handle complaint or service calls.

Can you weigh in on this situation—maybe from the experience of others? It would be very valuable. Thank you so much.

Signed,

P.R.

Dear P.R.,

The question you ask is a key consideration faced by every condominium, co-op, or HOA board nationwide—whether to hire a property manager, hire a management company, or to go it alone. There are a number of factors to consider in making this decision.

First, there are three basic management options available to unit owners in both residential and commercial condominiums and co-ops, as well as planned developments governed by a homeowner's association (colloquially, an HOA). The first option is to hire a property manager as an employee of the association, who will be charged with the responsibility of carrying out board policy and operating the day-to-day business of the association. This can include finding and vetting vendors, dealing with emergencies, coordinating services by other employees (such as front desk, housekeeping, or security staff), and overseeing work by third party vendors—such as landscapers, maintenance providers, and valet. As this person would be a direct employee of the association, the board would have to negotiate the terms of the manager's contract, including vacations and health care benefits, if any, along with workers' compensation and expected work hours. In addition, the association might have to hire a bookkeeper (or an outside bookkeeping vendor) to keep the association financial records.

Hiring a private, dedicated property manager has pros and cons. On the positive side, it allows the association to handpick a manager that they feel best represents the property, and ensures that the entire association budget for management is going directly to salary, presumably ensuring the highest quality employee. There are some significant negatives. For one, every time the manager has to miss work, the association will be entirely without management support. If the manager has to miss extended time due to illness, or if the manager should leave their position or need to be terminated, the tasks of operating the association will fall on the board's shoulders until a replacement employee can be found. And finding that replacement will require a large outlay of board member time, in and of itself. Continuity of management support is one of the largest negatives to hiring an in-house, private property manager for any community.

The second option is to hire an independent property management company. A management company offers the advantage of both economies of scale (due to dealing with a large number of communities) as well as an experienced executive team who will oversee the employees working for your property. They typically will have a large pool of service providers that they have experience working with and also will be familiar with large numbers of manager candidates should changes be required on short notice. Often, when a manager or other personnel are out sick, the professional management company can send over an alternate person to cover the position during their absence. Management companies generally perform bookkeeping services as part of their management fee, and they will be responsible for the association's accounts receivable and payable, as well and producing monthly financial reports and balance sheets. The fee charged by a management company is in addition to any salaries paid to employees, and it typically covers bookkeeping services, executive oversight, and some profit (after all, management companies are businesses).

The third option is self-management—having the board of directors itself manage the affairs of the association. Self-management can work well with many smaller communities, assuming that all of the unit owners are willing to pitch in and accept their share of the responsibilities. Of course, it is far less costly to owners. However, there are a number of significant negatives. For one thing managing all but the smallest property can be a full-time endeavor, and it is one that benefits from expertise and training. In fact, residential property managers must be licensed by the state to manage all but the smallest communities. Further, every single emergency must be dealt with by a board member, no matter the time of day or what that board member may be doing at the time. It's a very significant imposition. While self-management works a lot better for small commercial properties, like yours, most residential communities of any size will benefit from a professional property manager, whether that person is hired privately or an employee of a larger property management provider.

Gary A. Poliakoff and Ryan Poliakoff are co-authors of New Neighborhoods—The Consumer's Guide to Condominium, Co-Op and HOA Living. *Gary Poliakoff is a Founding Principal of Becker & Poliakoff, P.A., and Ryan Poliakoff is the Vice President of Management at AKAM On-Site. E-mail questions to condocolumn@becker-poliakoff.com. Please be sure to include your hometown.* ■