Are Your Management Fees Going Up?

Read on to see why this could be something your board will see if it hasn't already.

By Dean Jackson, CCAM-HR

Does your wallet hurt too? Over the last few months, mine appears to have strained a muscle or two, and when I take it to the bank for some TLC, there's not as much to go around as there used to be.

In San Francisco Bay Area, as of June, the Consumer Price Index was up 3.2% from the year before. Energy has gone up a whopping 23.1% year over year, driven (pardon the pun) mostly by the price of gasoline.

Year over year home prices are up, on average, nearly 35%. Even my grocery bill has gone up.

Considering the trend, is it any surprise that prices are going up in the HOA industry and in related industries? Apparently, it is a surprise to some boards of directors.

Boards of directors can lose sight of the fact that prices are going up everywhere and they sometimes have difficulty understanding why the cost of new siding, or of plumbing services, isn't the same as it was 10 years ago. While many directors strive to keep assessments low for the benefit of their neighbors, they may miss the forest for the trees.

Speaking of trees, let's look briefly at the construction industry. Scott Swinton, CEO of Unlimited Property Services, has described the supply chain as "a disaster everywhere for everything" and that applies to "everything that is manufactured." He noted that windows are two to three months back ordered and that one window manufacturer has increased prices 8% as a result. As with windows, scarcity drives price increases.

Did you know that there is a paint crisis? Apparently, the recent freeze in Texas destroyed chemicals and the failed electric grid caused machines which are designed to operate perpetually, to suddenly go offline. The result was the need to start paint production from scratch, which, with a lack of materials, is a slow process.

Lumber prices have been very volatile, consequently these costs are passed on to the consumer.

With a shortage of employees, and shutdowns associated with COVID- 19, the cost of hiring and retaining qualified staff has gone up. Scott calls it "raw economics, supply and demand." There is a shortage of materials so demand and costs are high. There is a shortage of qualified labor, so demand and costs are high. Add to this the cost to address deferred maintenance, and the cost of maintaining aging communities, and we're talking about some real money.

It may be a bit more difficult to explain why management fees may also be on the rise. Lin Yates, CEO of The Miramonte Company, noted that the costs of office supplies, insurance, education, and labor have all gone up. Paul Collins, CEO of Collins Management ACMC, noted that inflation is currently high, and a huge portion of that is housing prices. Employees need to be able to afford to live where they work, consequently employers must pay a living wage and improve compensation packages to retain employees, many of whom are choosing to move out of

state rather than continue to pay the exorbitantly high cost of living in California.

Collins explained that there is a lot of "grass is greener syndrome," which, when coupled with the need for more managers and support staff, and better compensation packages, increases staffing costs. If management fees reflected the cost of living in the Bay Area, companies would be better able to recruit and retain managers.

Companies are also continually working to invest in infrastructure, such as equipment to enable employees to work remotely. Compliance with California's ever-changing legislation is necessitating higher legal fees for HOAs, higher education costs for managers, and increased management time associated with items such as the mandatory elevated wooden structure inspections required by Civil Code §5551, and the private sewer lateral inspections required (sometimes on a deadline) by local municipalities.

We can also expect legislation to result from the catastrophic collapse of the building at Surfside in Florida. All of these items, in theory, should be offset by management fees.

The time is coming, and may already be here, where managers and management companies can no longer be shy about charging for the work being done, including services which may go beyond the contract (directors sometimes need to be reminded of this), and explaining the increase in management fees.

Construction costs are high now because many HOAs have spent years trying to keep assessments low, at the expense of proper maintenance, and communities are being forced, if not by legislation, then by their state of disrepair, to make drastically expensive repairs, made even more expensive by rising construction and materials prices.

Despite deferred maintenance, the value of many of the homes in HOAs have increased dramatically, and yet management company fees often don't reflect the change in home values, nor do they offset the actual time and effort spent managing the association.

In many cases this won't be a comfortable conversation, but it is one worth having. Wallets may hurt in the short term, but the cost of maintaining most people's most valuable asset, their home, will very likely be more than offset by increasing property values. There is, as they say, money in your home.

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