SMOOTH TRANSITIONS

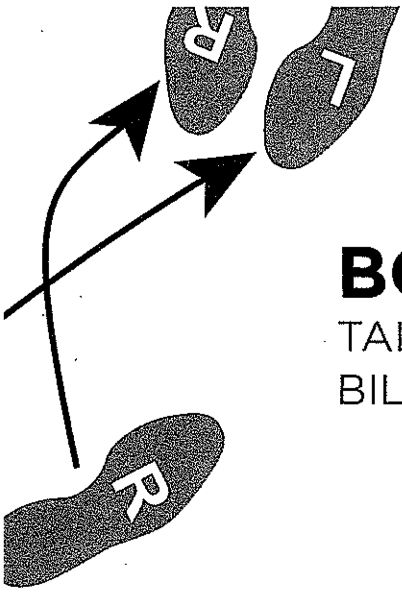
Signing on with a New Management Team

BY BILL MORRIS

Changing managers should be as simple as changing dance partners. It can be – but it can also be fraught with problems – if the board isn't on top of the situation. David Fox knows.

Fox is the board president at the 134-unit Linden Towers Cooperative No. 1 in Flushing, Queens. A retired laboratory technologist, he has lived in the building since 1976 and has served on the board for 30 years, the last three as president.

The co-op has gone through several management companies over the years. In the 1960s, its management firm was indicted for stealing co-op funds. That company's successor worked well until the founder retired and service began to decline. The next company was based in Yonkers, and the manager was rarely sighted on the Linden Towers property. "We had to do more and more work as a board," Fox says. "It got ridiculous." »



BOARD HORROR STORIES:

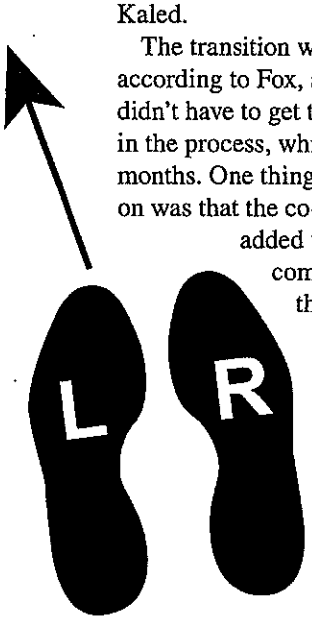
TALES OF LOST DOCUMENTS, MISROUTED TAX BILLS, AND MISFILED MORTGAGE STATEMENTS.

So the board went shopping for a new management company. It had plenty of experience – good and bad – to guide it through the process.

"The first thing we looked for was geographical proximity," Fox says. "If the company has no clients in the neighborhood, they're not as likely to come around. Another factor was the company's reputation, and how many buildings they manage, and how many of those are co-ops."

By way of checking references, the board members talked with boards at other buildings managed by the potential companies, then visited the properties to inspect their physical condition. They whittled down the list to three finalists, then visited the companies' offices. A couple were "tired-looking." One, Kaled Management, was "progressive and businesslike." The board went with Kaled.

The transition was "smooth," according to Fox, and the board didn't have to get too deeply involved in the process, which took about two months. One thing the board insisted on was that the co-op's name be added to the management company's name on the management account. "There were concerns about who owns the money," Fox says, "so we insisted on having our name added to that account."



A cross-section of property managers agrees that a key to a smooth transition is a collegial relationship between the outgoing and incoming management companies. Boards can help foster such a relationship.

First Steps

"Boards should advise the old company that the new one will be in contact," says Paul Attinello, chief financial officer at Kaled Management, the man in charge of the company's back office. "That way, the old company will be ready when I make contact asking for documentation, such things as an arrears list, the maintenance roll, secondary charges for parking, and tax returns for the corporation."

As a rule, there's a high level of cooperation between outgoing and incoming management companies. "It's a small industry," Attinello says. "We see a lot of the same players, so it's usually a pretty cordial handshake. If we lose a building, I like to help out the new property manager. There's no benefit to me to withhold information."

Most transitions are completed within 30 days, though some can take up to two months. As is the norm with many incoming management firms, Kaled doesn't charge a new client for the first 30 days, even though the company is working on the account: "We're working the building, we're investing time into the account. We're ramping up, putting information into our computer system. The way I see it, even though we aren't getting paid, it's a good investment for us."

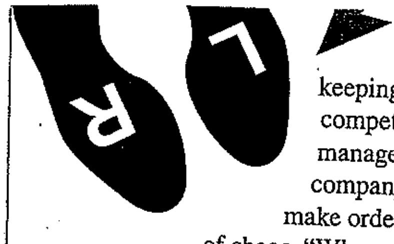
Even so, there can be friction. Attinello recalls a transition about five years ago, when the previous management company refused to relinquish access to digital files, forcing Kaled to key in all vital information by hand – right down to the names and addresses of residents. "I guess the previous company was annoyed that they'd lost the management contract," Attinello says. "But that was a rare occurrence."

Management Protocol

One reason it's rare is that most management companies have an established protocol for transitions. "The key to a transition is having an organized list of the documents you need to obtain," says Michael Berenson, president of Akam Associates. "We have a very complete list – nearly 100 items. Then you have to make sure all contracts are reviewed, and make sure all contracted services are being provided. We find that many contracts are outdated. These older contracts, say for the elevators, might have 3 to 7 percent escalations each year. Over time they get priced out of the market. So we renegotiate and rebid those contracts."

Akam, one of the larger management companies in the city, has a "transition manager" on staff whose sole job is to handle the transfer of data when the company acquires or loses a management contract.

Boards can take solace in the fact that even if the company they're letting go was lax about record-



keeping, a competent management company can make order out of chaos. "When we take over management of a building, it's usually because the previous company has gotten sloppy," says Lloyd Amster, chief executive officer of Prime Locations. "Records can be sloppy. But in order to get a building online, all we really need is a recent financial report, and we can start from there. We reconstruct everything, and we have a transition checklist. The first thing we check is that insurance is up to date. We check service contracts. We need to know if the building is in the middle of a major capital improvement project. We check the proprietary lease, and make sure that everyone who's providing services has insurance in place. Then we send out a questionnaire to residents to update all contact information."

There are horror stories about documents getting lost in transition, and about tax bills or mortgage notices that don't get transferred to the new management company in a timely fashion. "It can happen," says Peter Lehr, director of management at Kaled, "but we've got our checklist of which documents we have received. We know what to ask of our counterparts in the outgoing firm."

The top items that must be transferred: rent rolls, arrears list, tax ID number, copies of most recent bank statements, insurance policies (make sure they're up to date), vendor contracts (laundry room, parking, elevator repair, etc.), the job file on any ongoing capital improvement project (including contractor and subcontractor contracts, architectural plans and specifications, engineer's notes, and payment requisitions).

The transfer of data, while important, is only part of the transition equation. "When I take over a property, I do a walk-through," Lehr says. "I learn as much as I can from the super. I meet the staff and try to gauge their competency levels. Then I meet with the board and find their hot-button issues. We try to get as much information from them as we can."

Avoiding the Perils of Management Transition

There are two other transition scenarios, one fairly rare, the other increasingly common. The first is when a building goes from self-management to professional management; the second, usually found in new condo buildings, is when the sponsor/developer cedes the running of the building to a management company.

"The thing about a transition from self-management to professional management is that sometimes the level of expectation is very high," says Lehr. "The board should have high expectations, but they should be reasonable. We don't have a crystal ball or magic dust. We have to go through the process. We're not going to change things overnight."

With new condo construction returning to pre-recession levels, a much more common scenario is a condo board hiring a management company after the departure of the sponsor. It's rarely smooth. "With transitions from sponsor/developers, we find that much of the information is not available and not handed over easily," say Berenson of Akam. "It's unusual that you get all the documents in a comprehensive and timely fashion."

The problem is that usually there are no established processes – things like employee handbooks, a preventive maintenance schedule, alteration applications, and comprehensive applications for buyers.

HIRE RIGHT, TRANSITION LESS: DOES YOUR POTENTIAL MANAGER ASK THE RIGHT QUESTIONS?

In addition to establishing these processes, Akam puts together a five-year capital improvements and preventative maintenance plan and seeks to maximize income from ancillary sources, such as parking spaces. "We often find that the attention to detail was not in place," Berenson says. "The key thing is to improve service levels."

Of course, one way to avoid the perils of a management transition is to hire the right management company in the first place. That's hard, to be sure, but it is doable. "To me," Fox, the president, says, "one of the major aspects is how industrious the new manager is; how much they concern themselves with running the property. Our manager, Julia Kodis, is very detail-oriented, the best manager I've had experience with. And Peter Lehr came to our board meetings for the first year, along with Julia. We were favorably impressed that they were taking an interest. Peter wanted to know how the board functions, and he gave us advice. It confirmed that we made a good decision. You don't always know what you've got until you've got it." ■

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