

June 11, 2009

Homeowner groups tackle recessionary pains

One big slice of Orange County living is homeowner associations (HOAs) — the communal governance groups running numerous neighborhoods. The real estate downturn has been hard on HOAs, too. We asked the new CEO of HOA manager Professional Community Management of California — Donny Disbro — for his take on the challenges these community groups face ...



Us: What is the general health of the HOAs your company oversees?

Donny: The overall health of our community portfolio is impressive in this economy. Managing cash flow can be challenging, but our PCM managers are entrepreneurs and are trained to find innovative ways to minimize costs for the communities we manage. We have implemented cost cutting measurements via “Go Green” initiatives that allow the communities to be environmentally conscious while cutting back on product use, therefore reducing expenses.

Several recent examples include electronic statements and billing via our company Web site and computerizing our security systems. All these practices drastically reduce paper use and eliminate the cost of mailing and printing costs, saving the community associations up to 75 percent in paper expenditures. As we move forward, PCM is committed to being a paperless company by utilizing technology to streamline our processes.

We also encourage other cost saving measures such as water management plans that utilize weather stations, irrigation systems and utility audits. One strong example of a savings recommendation is to minimize the number of days vendors such as landscapers and pool maintenance companies visit the community to perform their service. This reduces cost because it is often more economical for them to come to the community fewer days per week.

Us: We hear many HOAs are having problems with finances due to the financial owes (foreclosures etc.) of their member/owners.

Donny: Yes, delinquencies are an issue but Orange County is healthier than many of the surrounding counties. The homeowner association board has a fiduciary duty to pursue delinquencies in order to sustain cash flow to perform maintenance needs for the community. This in turn sustains property values and aesthetic appeal. We find that by actively addressing delinquencies when the balances are smaller, there is a greater likelihood that the association can collect.

Additionally, we encourage payment plans. We discovered that working with owners on payment plans early in the delinquency process has had a positive impact because it is a constructive customer service relationship. These affirmative relationships with owners assist us in emphasizing the importance of HOA assessments. This proactive approach also saves the owner unnecessary collection costs.

Us: Any specifics ... like delinquency rates and trends of such stats?

Donny: I believe Orange County has already endured the most difficult circumstances of the current economy and positive signs are starting to appear. Based on an analysis of our communities, the average delinquency rate is approximately 5 percent. From this figure, we have found that delinquency rates are the highest in new communities and the Inland Empire. We are optimistic that the trend will move in a positive direction in 2010. I believe Orange County will soon be the focus of heavy investment in real estate market. This factor will cause delinquencies to slowly diminish, even if progress is gradual.

Us: What interesting/innovative steps are these HOA — and your company — bring to these challenges?

Donny: We have a goal setting program for many of our boards' of directors where they can work with us to set and reach realistic goals for their community. With the increase in delinquencies, daily cash flow can be an issue. We work with communities on a continual basis to ensure that they have a realistic operating plan. Another service we provide to the communities is review for cost reduction where applicable.

Us: How about the senior housing game –are the economics better?

Donny: Most senior communities are less affected by homeowner delinquencies because many residents of active adult communities live on a fixed income. In past economic downturns, the senior communities were less influenced than other community demographics.

Today, we are seeing a rise in unpaid assessments even in the active adult communities. Many boomer generation seniors are still working and are as impacted by the economy as younger sections of the workforce. Fortunately, the boomer generation has strong equity portfolios which are a major part of their stability. In today's financial environment, senior housing economics are somewhat better than other groups, but they are not untouched.

Us: How is PCM faring as a business?

Donny: 2008 to 2009 was an incredible growth year for our firm. By focusing on our clients, and finding ways to save them money while providing the same level of service, we have experienced steady expansion. For instance, many community association boards approach PCM requesting an evaluation of ways to save money and improve their property values as we prepare for a more positive market outlook.

From 2008 to 2009, we have grown 15 percent and we have also experienced 25 percent growth in the last four years. In fact, PCM's expansion has been consistently strong, building from the management of 175 to 277 associations over the last decade. We are now responsible for a portfolio of nearly 100,000 units in 277 community associations, representing a combined real estate value in excess of \$45 billion. This makes PCM California's largest privately held property management company.

Us: What are the challenges and opportunities?

Donny: Recently, the economy has presented many challenges but also offered opportunities that benefit our clients. Our board member clients face the reality of upholding their duty to maintain their communities in the face of a spike in unpaid assessments. In response to this issue, PCM has worked diligently to develop new programs that will assist our clients in saving money both today and in the future. This gives them the ability to keep their community as vibrant as possible regardless of the difficult economic circumstances.