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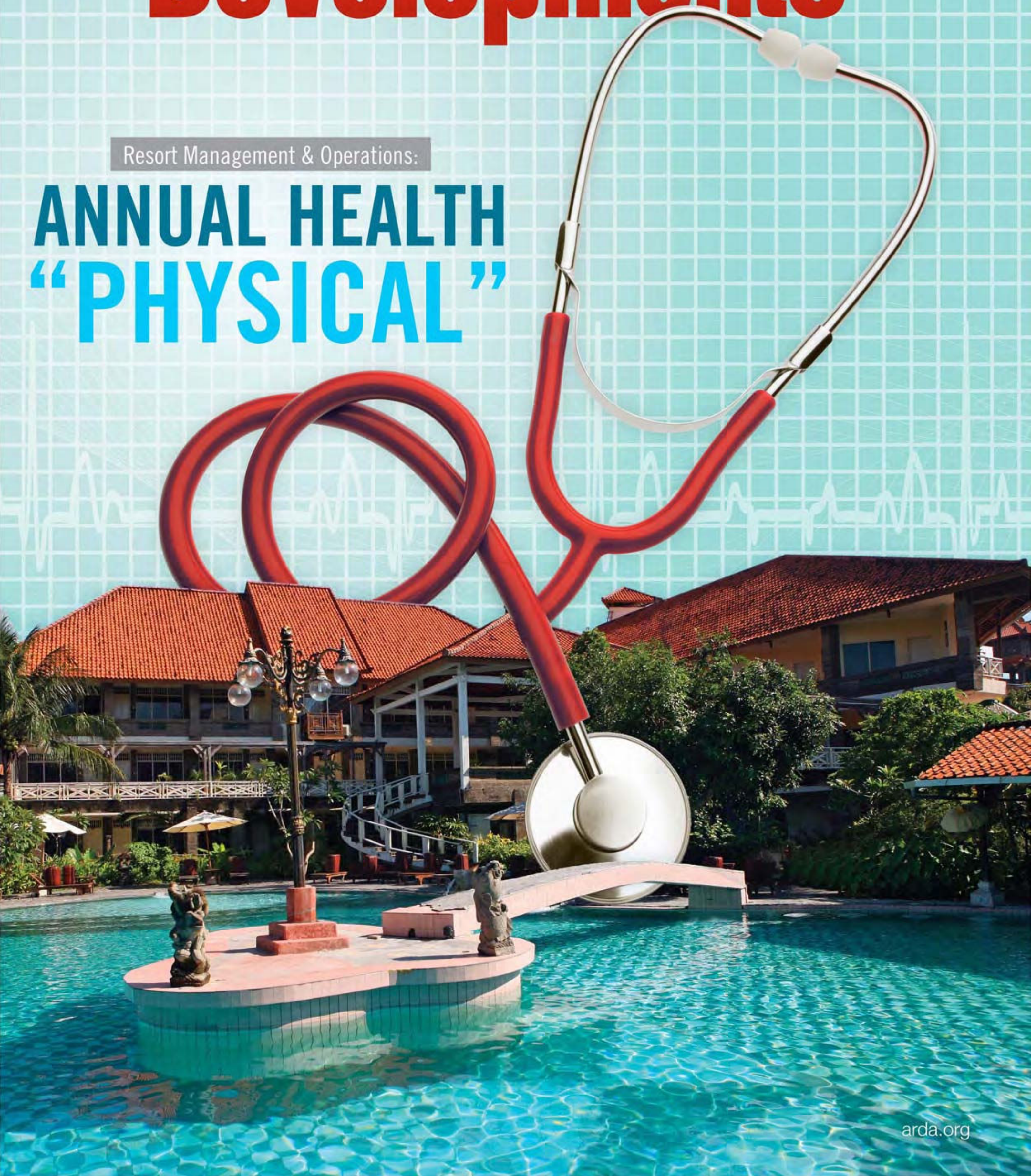

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When It Comes Time for a Turnaround

It's a common scene in today's economic landscape—owners become delinquent in paying maintenance fees, the homeowners' association (HOA) cannot collect enough revenues to properly maintain the property, finances and spending are mismanaged, and owners become disgruntled because what they purchased is no longer worth what it once was. The property then becomes classified as a "turnaround."

So, how does a property and HOA get out of this predicament while keeping a sharp eye on the financial foundation? It takes time, attention, and detail.

Inside Story

"When we took on a property in 2005, we walked into an HOA that was literally out of money—they couldn't even make payroll that week," said Bill Young, president and chief operating officer of SPM Resorts, a full-service timeshare management company that serves 34 resorts and more than 86,000 timeshare owners.

"We immediately began focusing on past-due accounts that had not been worked hard for collections," said Young. "We got in there, talked with people about their ownership, reminded them of the benefits and amenities the property provided, and made a promise that things would get better. Within two weeks, we saw an increase in collections of maintenance fees and started to bring some revenue back into the HOA."

Why wasn't a special assessment done or maintenance fees increased?

"We determined that a raise in maintenance fees would not be enough money during that time period—and it would not come in fast enough," says Young. "Secondly, issuing a special assessment would have helped in the short-term, but the owners were already disgruntled enough and that would have made them even more upset. We didn't expect the collection ratio from that to be enough to suffice their needs. We had to raise money from past-due accounts."

Within the first two weeks of SPM managing the property, the central air conditioning unit went out and had to be replaced. About a year later, Hurricane Francis came through and tore the roof off of the building. Then, both elevators gave out and needed to be replaced. This was all when the financial recovery was in its early stages.

Beyond just collecting past-due accounts, there needed to be a serious focus on the financial management of the association. This is where the professional management component became critical, helping to manage the income and revenue. Then, once there were better reports on the financial situation to give to board members, they were able to make more informed decisions of what to do next—transparency was key.

"It is the management company's responsibility to educate the HOA and board about their current financial situation and to present recommendations for changes that will positively affect their financial and physical states. It begins with a thorough reserve study and looking for areas where money can be collected immediately."

HOA: Sharp Financial Focus

Looking closely at the association's expenses is another way to find cost savings. Examples like finding insurance with equal coverage but a lower rate is one good way to start.

> **In the end, you'll have a better operating resort, happier owners, and a more positive financial standing...**

And what if an association does not have a large number of past-due accounts to collect on but is still in a financial quandary and repairs need to be made? Capital improvements can be made through a reserve fund. If this kind of fund is available, it is best to schedule the work across a period of several years—typically three to five years—to help space out work and costs. Alternatively, if a property anticipates major improvements, they can begin to increase the amount of money put into the reserve account several years prior to the renovations when the improvement process actually begins. If taking money from reserves is not an option, the association can consider taking a loan from a bank. This is often a good solution for a short-term renovation plan.

Overall, Young recommends that HOAs avoid raising maintenance fees or issuing special assessments. While this is sometimes necessary, it is advisable to look at other options first. When owners are already disgruntled due to the condition of their investment, raising maintenance fees and/or issuing a special assessment can make owners even more upset, and collecting on these accounts can become more challenging than before.

Perhaps one of the most important factors in revenue and cash flow of an HOA is the timeliness of sending out the maintenance fee statements each year. Many HOA bylaws state that the notices should be sent sometime between November and January. This falls right around the holiday season—just in time for everyone to be short on cash.

"It is important to get the statements out as early as your HOA's bylaws allow," said Young. "The interesting thing about these notices—if you send them out early, you get paid. If you don't, you don't get paid. We have seen that when we send notices out as early as possible, we collect a higher percentage than we do when they are sent later. It is vital to observe this schedule carefully."

Managing Owner Expectations

Boards have to be very careful with how they spend the association's money, making informed decisions on behalf of the owners. How do you manage disgruntled owners of a turnaround property if a great deal of work needs to be done and they want it done right away?

"Transparency is key in a turnaround because not only do you want your owners to know the decisions that are being made by the board but you also want them to know *why*," Young says. "Communicate what the board is doing through newsletters, Facebook, Twitter, and e-mail, wherever your owner base is. Show them photos—owners love to see the work, as it helps them connect the dots from the money they pay to what's happening at the property. It is especially important when making 'behind-the-scenes,' non-aesthetic improvements. Try to reach them and let them know the real nuts and bolts of why electricity was higher this year than last year. Purchase items that have the best product lifetime and will work for the long-term versus just a quick, Band-Aid fix."

Overall, while many challenges may be met along the way in a turnaround, a board and management company that work together will reap the fruits of their labor and ultimately enjoy long-term success. These fruits will include a better operating and better quality resort, happier owners, and a more positive financial standing. ■

Tips for Success

There are several steps in managing a turnaround, with short- and long-term plans needed to address the entire scope of work.

Here are six steps to help get a property back on track.

1. REVIEW FINANCIAL CONDITION.

- Review the HOA's financial condition to include operating budget, cash flow, reserves, and expenses.
- Evaluate the financial condition—this will provide details on funding levels of reserve accounts, insurance claims, and any excessive expenditures.

2. EVALUATE STAFF.

- Review the staffing situation to better understand how the resort spends money on a day-to-day basis. Where are the primary drains on cash-flow? Can the essential products be purchased at a lower cost but with the same quality from another vendor? Do the materials have a long lifespan?
- Review and evaluate the salaries and wages of employees as compared to the marketplace. Can health insurance be found at lower rates while providing the same benefit levels? Can housekeeping expenses be lowered?

3. ESTABLISH STANDARDS.

- Assess the current standard operating procedures, rules, and regulations to look for any areas of improvement in efficiency. Would new front desk standards improve check-in service for guests that would be quick and more pleasant? Does the maintenance staff have standards for responding to work orders in a timely manner? Does the housekeeping staff have standards for average room turnover time and unit cleaning?
- Effective and efficient standards can help a property improve its service and quality while behind-the-scenes structural improvements are being made. These standards are among the first changes that guests will notice.

4. WALK THE PROPERTY.

- Inspect every aspect to provide the board and management company with a good understanding of the most immediate needs—this will also be a good opportunity to inspect all unit interiors and exteriors and note necessary major/minor structural and mechanical repairs and updates.

5. COMPLETE A RESERVE STUDY.

- A reserve study will provide lifespan and estimated replacement dates for all furniture, fixtures, and equipment (FF&E) on property. Replacement plans can then be made based on priority needs.

6. PREPARE AN IMPROVEMENT PLAN.

- Address the most vital needs first in the short-term plan. The long-term plan then takes the rest of the items identified during the walk-through and reserve study and prioritizes them in a way that makes the most sense for renovation timing and budgeting.