

## Magical Mystery Tour

**Title** Magical Mystery Tour

**Description** Want a good financial planning tool? Take a walk-through of your building.

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### Abstract

Most co-op and condo board members know surprisingly little about the mechanical systems and components of their buildings, leading them to make unsurprisingly uninformed decisions. Read why it's important to get a bit more hands-on and how to do it.

### Article Text

About 10 years ago, Jan Willem van Bergen, board president of Worldwide Plaza condominiums, took his fellow board directors on an eye-opening walk. They toured the two towers containing 654 residential units, from roof to basement, and looked at the commercial spaces as well. Everyone had a common reaction: "I had no idea!" They had not realized what it took to run the building. Yet, they also wanted to know where their dollars were going, and why increases in common charges were sometimes necessary.

Since then, the board has made the tour an annual event. Every September, during the process of setting the budget for the following year, the members inspect the building with property manager Christine Martin of Douglas Elliman and resident manager (superintendent) Anton Balaj. In the process, they learn about the physical plant and look for problems that need to be addressed now as well as in the future. Armed with this information, the board is then able to set a budget for the following year that minimizes the risk of costly surprises. The tours have given board members a "better understanding" of the building and its finances, Van Bergen says. So there are fewer disagreements among board members when discussing issues or expenses related to the repair and maintenance of the building.

They say that knowledge is power. But most members of co-op and condo boards know surprisingly little about the various mechanical systems and components of their buildings, including how they work, what their present condition is, and what their likely useful life will be. So, when boards try to set budgets that include repairs to or replacements of those systems and components, they make uninformed decisions. And without proper planning for such expenses, they may be forced to dip into their reserve funds, raise maintenance or common charges, issue assessments, or even refinance if those systems or components break down. That's why it's important to consider getting a bit more hands-on and taking a closer look at your building.

### A Benefits Tour

In most co-ops and condos, the property manager conducts regular inspections of the building. Property managers should do that “as often as they think necessary for their particular building,” says Mitch Gelberg, managing director at Rose Associates. Joseph Bulfamante, director of management for Lawrence Properties, agrees, adding that how often his property managers inspect depends on the size of the property, the number of units, and what’s happening at the structure. Bulfamante’s agents and superintendents also do more formal walk-throughs twice a year. Robert Grant, director of Midboro Management, reports that his property managers and superintendents do “super-detailed” inspections seasonally and less detailed ones more regularly. Van Bergen says that his building requires such tours by their property manager on a consistent basis (their resident manager and the building’s staff also inspect the condo as part of the building’s preventive maintenance program).

So, if a co-op’s or condo’s management staff is doing all that, why does the board need to inspect? Because doing so has benefits. Among them:

**The education of board members.** The board’s annual walk-through isn’t meant to replace the property manager’s inspections, Van Bergen explains. What the property manager does is designed to help him or her stay on top of daily repair and maintenance issues. In contrast, the board’s annual tours are meant to educate the board about how the building is run and what its systems and components are.

When Douglas Elliman’s Martin first learned about Van Bergen’s plan, she was “surprised the board wanted to be that involved.” But as she thought about it, she decided there was no better way for board members “to understand how the building is run.” Rose’s Gelberg agrees, adding that visiting the “back of the house” will help board members understand “what the equipment looks like and the condition it’s in.” Paul R. Gottsegen, director of management for Halstead Management, says that in some of the co-ops and condos his company manages, the boards tour with the property manager and resident manager every six months to get a “basic understanding of the building’s systems” and make “informed decisions” about repairs and maintenance issues. Eric W. Cowley, a structural engineer whose firm, Cowley Engineering, is based in Westchester, also agrees that co-op and condo board members need to have a basic understanding of how their buildings work. When inspecting their building, board members won’t see and understand everything, he notes, but they will pick up on “the lingo and jargon at least,” especially if an expert such as an engineer goes along to explain things. Then, if the property manager tells the board that, say, they need to drain down the “B” line of apartments to replace a certain plumbing component, the members are more likely to understand the “what” and “why” of the recommended action.

In fact, Cowley believes that having an educated board is so critical that he recently wrote a book on the topic: *Now I Understand: A Primer on Why Contractors Are Always Working on Your Building*. The book – which is available at Amazon, Barnes & Noble, and Borders – uses layman’s terms to explain why some buildings have more problems (particularly exterior ones) than others. It’s designed to inform board members so they can make better decisions about their buildings – and be able to explain to the shareholders and unit-owners why certain actions and expenses are required.

**The improvement of budgeting and financial planning.** Many buildings rely on the property manager's expertise and experience when setting their budgets, says Midboro's Grant. But that doesn't mean a board should rubber-stamp its property manager's proposed budget. The walk-through is a "key component of the budget process and financial planning," says Douglas Elliman's Martin. A board must "understand its building and budget appropriately," adds engineer Cowley. As part of the budgeting process, the board will need to decide how much money to set aside for repairs and maintenance and, sometimes, the replacement of defective or old systems or components. If the board doesn't anticipate these expenses and include line items for them in the budget, it won't have the money when it needs it. Then it may have to issue assessments or take money out of the co-op's or condo's reserve fund.

With a greater knowledge of their building's inner workings, board members are better able to prioritize repairs and capital expenses and allocate money accordingly. And when a property manager says the board needs to set aside a certain amount of money for, say, a new boiler, the board members will appreciate why that much money is needed to replace it. Plus, meetings can be shorter and more efficient because everyone on the board will have a working knowledge of how the building is run, Gelberg adds.

Regular tours also help avoid surprises, Van Bergen points out. In fact, the main reason he started the annual ritual was because he found that it was "hard for fellow board members to understand why certain things needed to be done." Board members need a complete picture of the building's systems and components so they can understand its needs. While his experience in the hotel industry helped him, other board members were not as fortunate.

Planning for the next year isn't enough, however; a board should also look further into the future to see what capital improvements loom on the horizon. Van Bergen's board uses the knowledge from the walk-throughs to develop a five-year plan for capital improvements. As a result, the board has only had to issue two assessments in 18 years.

## All Together Now

Ideally, your property manager, resident manager, and all board members should go on the walk-throughs. If all the board members don't go, at least the members of the house or building committee should, suggests Rose's Gelberg, noting that members of those committees are typically more involved in repairs and maintenance. Gelberg also believes that the tours are particularly important for new board members.

Richard Koral, director of the Apartment House Institute and secretary-treasurer of the Superintendents Technical Association, believes that co-op and condo boards should designate one board member as the building "expert." That designee is the only one who needs to accompany the manager and superintendent on the walk-through. He or she can then report back to the rest of the board.

In addition, depending on the issues, Gelberg says that it might be appropriate to invite professionals, such as contractors, roofers, or engineers, to join your board's walk-through. Then the expert can explain specific issues to the board members, who'll have an opportunity to ask

questions of someone qualified to answer them. But Koral warns that experts may balk at such a request. Instead, he suggests that the designated board member, the manager, and the super use the tour to identify any issues in the building and then bring in the appropriate experts to address them. Cowley adds that having too many people go on the walk-through could create a “congested mess.” He suggests inviting one well-rounded individual who is familiar with the building and its issues, and is competent to discuss various areas. Ideally, your resident manager or superintendent should be able to fill this role.

## **Spotting Trouble**

Most board members aren’t engineers, contractors, or architects. And the walk-through isn’t meant to train them to do the professional’s job, notes manager Martin. But most building issues are obvious, Koral points out, so spotting them isn’t brain surgery. The inspection should cover all the common areas of your building, including the mechanical rooms, such as the elevator and boiler rooms and steam tower. You should look at the condition that the property and its systems are in with an eye to general maintenance issues, minor repairs, and capital improvements. You should also look at aesthetic issues, such as the condition of the paint, wallpaper, and carpeting, and the building’s cleanliness. And, this is a good time to look for possible improvements (such as adding emergency lighting in stairwells) and ways to maximize the building usage (converting unused space in the basement into storage units, for example, suggests Bulfamante).

When Van Bergen’s board goes on its annual tour, the manager and resident manager should have already put together a “wish list” of repairs and capital improvements as well as a preliminary budget for the next year. They’ll take that list with them so the board members can see why those items are there, Martin explains. They start at the top of the building and work their way down through the common areas, going outside, if necessary. (Van Bergen notes that they don’t go into individual units, because maintenance of the apartments is each unit-owner’s individual responsibility.)

No item is too small for scrutiny, from pipes and pumps to valves and outlets. Van Bergen’s board also checks things like the condition of the carpeting and the wallpaper, the lighting in the stairwells, and the building’s overall cleanliness. Van Bergen is proud to say that you “can eat off the floors” in his building. In addition, Martin says the walking tour is the perfect opportunity for a property manager to show board members “what’s being done to keep the building in good shape” and to point out any repairs or improvements that were made during the past year.

## **Using It, Not Losing It**

It makes no sense to do a walk-through of your building if you’re not going to use the information you gather. Therefore, after the inspection, compile the information gathered and use that during your building’s budgeting process. Because this data can be so valuable, Koral suggests doing the tour “well in advance of doing the budget.”

Mark Shernicoff, a certified public accountant and principal at Zucker & Shernicoff, says that co-ops and condos should have two budgets: operating and capital.

**The operating budget.** This is for the building’s “day-to-day needs,” such as supplies, utilities, mortgage payments, and normal maintenance and repairs, he explains. It should include line items for each specific need (\$85,000 for a new compressor, for instance). The more complete and detailed the budget is, the easier it will be for the board to determine (1) how much money it will need for next year and (2) how to raise that money. There should also be a contingency line item for emergencies. While you should try to “avoid surprises,” you should always have “extra funds for unforeseen items,” suggests Van Bergen. Shernicoff agrees that buildings should “have sufficient funds...to take care of unforeseen emergencies.”

The walk-through helps board members prioritize repair and maintenance needs and decide which should be included in the building’s operating budget. Van Bergen’s board has a meeting immediately after the tour to discuss the information gathered from the walk-through and compare it to the wish list, says Martin. They then sort the list into three categories: items that must be done, items that they’ll do if they have the money, and items that can wait. The things that they decide must be done are incorporated as specific line items into the operating budget for the next year.

**The capital budget.** A building’s capital budget or five-year-plan is for “major repairs and replacements, such as upgrading elevators, repairing the façade, or replacing the roof” – that is, large expenditures that don’t occur frequently or regularly, explains Shernicoff. Setting the capital budget requires the board to “think ahead,” so it’ll have the money it needs when it needs it, he notes. For example, say you bought a pump in 2000 with an expected life of 20 years. In 2018, you should start budgeting so that you’ll have the money ready for when you’ll probably need to replace the pump. If a board doesn’t plan ahead and something unexpected happens, fewer contractors may be available at the last minute and often only at a higher price. Plus, the board must “deal with any collateral damage as well,” such as damage to apartments because of, for instance, a roof failure, Shernicoff adds.

Nonetheless, few buildings have capital budgets or five-year plans. Shernicoff believes that it’s often hard for board members to look that far ahead – or they simply don’t think they’ll be in the building that long. So, they may be reluctant to increase the common charges now to raise money for future expenses occurring after they’ve left. Cowley adds that board members tend to focus on issues that directly affect them, not necessarily those that affect the entire building. Once that individual’s problem has been addressed, the board member may lose interest. But a board that does annual walk-throughs and gets to know its building intimately will be more informed and presumably more committed to planning for long-term needs.

### **Reluctant Walk-Throughs**

If inspections are such a valuable tool, why don’t more co-op and condo boards do them? You can’t compel people to go on walk-throughs, says Gottsegen. The board members in buildings that Lawrence Properties manages are invited on the biannual formal tours, but they “rarely go unless there’s a problem or they have a specific concern,” reports Bulfamante. Midboro’s Grant notes that board members are invited to join his property managers on their seasonal “super-detailed” walk-throughs, but they rarely come. The exception is a building with a “very hands-on board” that, in fact, demands weekly inspections on which one or two board members always go.

But many boards feel that they shouldn't have to because their property managers and resident managers are professionals, who the boards "expect...to do their job," Grant adds.

Another hurdle is that such inspections take time. Martin says that the board's annual walk-through typically takes 90 minutes, or more if they have issues or new board members who need to be brought up to speed. But Shernicoff notes that board members must be willing to "invest time and energy upfront to save down the road."

Van Bergen says that, although it takes "time and commitment" to do a complete and thorough walk-through of a co-op or condo, he'd recommend such an activity to other boards. "It's common sense," he remarks. Being on a co-op or condo board is a "huge fiduciary responsibility," which is hard to fulfill without the necessary information. At his building, no one complains about doing walk-throughs; in fact, the board members consider it an "interesting and educational" experience.

Van Bergen found another use for the data gathered from the board's walk-throughs. Last year, he gave a PowerPoint presentation using that information to all the unit-owners to show how the condo's money was spent and to compare their building with other similar buildings, illustrating how the board had worked to keep costs down. The presentation was so effective that the board got a "standing ovation," Van Bergen says. The owners "saw [the] complexity of what it takes to run the building" and appreciated the board's efforts. There's a lesson there for us all.

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