

Why Your Management Company Should Not Be Your Reserve Study Provider

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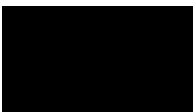
A disturbing trend in the community management industry is the practice of management companies performing reserve studies for the community associations they manage. Such an arrangement presents significant opportunity for a conflict of interest to exist between the management company and the clients for whom they perform reserve studies.

In addition to the conflict of interest which is presented when a management company undertakes a reserve study project for one of the associations they manage, there is the very real question of whether the client in this situation is receiving the best reserve study services possible if they are encouraged (due to low cost or lack of choice) to allow their management company to prepare a reserve study. It is generally agreed that someone who professes to be a jack-of-all-trades, is also likely to be a “master of none”.

Management companies who offer highly specialized services to their association clients, such as performing reserve studies, should be carefully scrutinized if they *are* going to be considered for the job. Even if a management company has hired a so-called “reserve study professional”, and even if that professional possesses one of the two professional designations from various industry trade groups, among the first questions which should be asked of any management company offering to perform reserve studies for their association clients is: *Do they routinely perform reserve studies for associations that are not their clients?* Or perhaps more to the point are they competing for these engagements against other reserve study professionals who may be engaged full-time in the business of performing reserve studies?

Notwithstanding the bigger question of whether or not this practice creates an unacceptable level of potential conflict between the client and the reserve study practitioner; any reserve study provider who is serving a captive market exclusively, and whose product and professional practices are therefore not subjected to the rigors of the competitive marketplace, is unlikely to be among the top service providers available.

Competition may be more beneficial in some ways than in others. While it may be that in some situations there are benefits to be had from establishing a proprietary relationship with a select group of vendors, excluding *all* other vendors from the pool of resources available to your client in the interest of enhancing your own company’s bottom line, is more than a potential conflict of interest. In fact, it could border on outright misconduct. At the very least it is far more likely to serve the interests of the management company than those of the association, whose interests the management company supposedly serves.



So, other than the fact that if your management company is trying to be your maintenance man, your gardener and your reserve study provider in addition to managing your association; they aren't likely to be performing all of these tasks as well as a specialist; why is it you really *don't* want your management company to be your reserve study provider?

The short answer is that your reserve study provider should be a specialist who is independent of any *actual* or *potential* conflict of interest with the associations which hire them to prepare reserve studies.

Although, the woefully inadequate professional conduct standards for reserve study practitioners published by organizations such as the Community Associations Institute (CAI) and the Association of Professional reserve Analysts (APRA), don't specifically preclude individuals who may have an actual or apparent conflict from performing reserve studies; the fact is that in order to guarantee the integrity of the analysis a reserve study provider must be independent, objective, and free from any actual or apparent conflict with their reserve study clients.

Reserve study practitioners who have a direct financial stake in the communities they work for (such as an owner); or third party professionals whose own financial interests may not be best served by providing a realistic, objective critique of the association's reserve funding practices (such as the association's management company); cannot be considered independent and objective.

To put it in the most straightforward terms possible; *independence on the part of the reserve study provider is paramount to ensuring the reserve analysis is not influenced by their own financial interests.*

You should also be wary of allowing your management company to perform your reserve study because the association may then find it necessary to find a new reserve study provider should they decide to terminate the management company's contract.

If your management company performs the association's reserve study and happens to make a mistake (or more likely, *multiple* mistakes), can you really expect them to acknowledge their errors? Maybe you can, but then again perhaps not; particularly if the magnitude of the error/s poses a significant problem for the association.

There are many good reasons to hire a well qualified reserve study professional and generally only one reason not to; *cost!* Conversely, there are many good reasons *not* to hire your management company to perform your reserve study and only one reason why you might consider doing so; *cost!*

If your management company is encouraging you to utilize their reserve study services you should be wary of their intentions because there is more potential benefit for them than there is for your community; and while they may promote their company as an economical solution to obtaining a reserve study, cost should not be the ultimate factor in choosing your reserve study provider.

