THE REAL DEAL

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## NYC managing agents weigh in with their annual report on residential buildings

*They say apartment complexes are in better financial shape than they were a few years ago, but are still watching their pennies.*

By Melissa Dencke-McGill

They are the gatekeepers of New York City's residential buildings. And as such, they have a front-row seat for the financial ups and downs – of which there are plenty in the post-recessionary climate – that the city's residential buildings are experiencing.

This month, The Real Deal talked to the managing agents that make sure New York City's co-op, condo and cond-op buildings run smoothly. What we discovered is that while the majority of buildings are in far better financial shape than they were during the downturn, most are still watching their pennies.

Indeed, many of the capital improvement projects that residential buildings are investing in are either required by the city – such as upgrades in the type of oil they're burning – or are other energy upgrades to deal with soaring water and sewage bills that the buildings will make back over time in cost savings.

In addition, one source noted that a handful of new construction buildings have cut back on amenities like concierge services that were dreamt up by developers. But whether it's a good idea to make those cuts is up for debate.

Management companies say maintenance fees and common charges have gone up steadily – even through the downturn. But they say that tenants understand that those increases are needed to offset the increase in fixed expenses.

For more on how these companies are faring, for the new types of litigation co-op and condo boards are pursuing against some residents and for a look at how buyers' board packages are being analyzed these days, we turn to our panel of experts.


### How is the fiscal health of NYC residential buildings now, compared to a year ago, two years ago and during the boom?

I would say buildings today are in better shape. People were shocked (during the downturn), and they had to tighten their belts and make some changes. So I think financially many of the buildings are in better shape today.

### How much have NYC building owners been spending to maintain their buildings today in comparison to previous years?

Every building is watching their pennies. They have been doing their maintenance and many of the buildings that were burning No. 6 oil are going through conversions right now to gas or No. 4 oil or a combination of oil and gas. They are in the process of working on it right now, but they are spending very wisely.

### What other kinds of new capital improvement projects are boards spending money on today?

Green projects, which are payback projects – better light for people in the building, upgrading electrical systems. We are reducing the use of toxic cleaning chemicals, we are doing different projects for improvement-focused infrastructure and we are looking at a lot of new technology right now. Water bills are insane, so we are looking at the new technology on how to reduce water and sewer charges. The upgrades do play a role in the value of apartments.

### Is there generally more or less competition to land residential building management jobs – or to keep jobs – than there was in the recent past?

There is less competition in the business due to the mega-companies that have bought up other companies.

### Are management firms expanding into new areas in order to stay competitive?

A lot of firms are trying to make money by selling oil, gas and electricity, and they do make money, but there is no way that you can go out there and get competitive bids when you have a self-interest. I don't think it's the right thing to do. We go out and actually shop the market—we pick our energy companies, gas, oil and electric. They are the people paying the bills, so you have to be loyal to your master.

### What sorts of new demands are being placed on managing agents at NYC residential buildings these days that didn't exist a few years ago?

A lot of our buildings have us doing internal audits and labor audits just to see if there are ways to reduce staff or services.

### How do maintenance and common charge fees compare today to a year ago, two years ago and during the boom?

Maintenance fees have gone up and there are major contributing factors – property taxes, power, sewer and water. We are already doing our budgets for 2013 and we are seeing an average increase – primarily based on real estate taxes – of as much as 2 percent just to cover fixed costs, so that's a lot. I just worked on a very large building that I manage myself, and they are a very conservative building. They are going to have to go up 4.5 percent because of fixed costs. The tenants understand. Everybody reads the papers and uses the Internet, so they hear the news and they know about the real estate taxes. When they go to a gas station to fill up, it's almost $4 a gallon now.

### What are you seeing in terms of foreclosures and financial distress of tenants/unit owners now, compared to a year ago, two years ago and during the boom?

I think it has pretty much quieted down. Our boards have really been very aggressive in collecting money. They normally don't let things go beyond 60 days. We have had very few foreclosures, and the banks have been very cooperative with us. People pay on time now and many buildings have instituted late fees.

### What kinds of new trends are you seeing with boards when it comes to approving new buyers?

I have been doing this for 35 years and have never seen boards go through packages the way they are now. I was just reading a blog from Fred Peters of Warburg Realty. When we do a deal with them, they submit impeccable packages. He called 2012 the year of the turndown. They have seen their board turndown rate up 40 percent over last year. So boards are really on top of the packages and they are not relying on bonuses anymore.

### What are fees like today for third-party managing agents, and how does that compare to fees in the past?

We have had basic increases in many of our buildings. They know that our costs go up and that we have to pay and insure people. If we cut their service, it hurts, so we have been getting our increases.

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### What sorts of new rules are you seeing co-op and condo boards institute these days that you haven't seen in the past?

We have a brand new condominium on East 93rd Street, and in its bylaws it states there is no smoking and people can't smoke outside the building. On rental properties we have been doing much more in-depth background on people we rent to. Many of our landlords are doing in-depth searches going several landlords back. Some of them are even having us do home visits to prospective tenants. They are very concerned not only that they can pay the rent, but also the type of tenant they are going to be getting. Many years ago, we used to do home visits, so it is interesting to see this come back.

### Are there any new (and financially burdensome) laws that residential buildings in NYC have to deal with these days?

Those buildings burning No. 6 oil have to go through the boiler upgrade process, and it is going to be extremely expensive. The stack that goes to the roof…can cost up to $10,000 a floor to install. That's a tremendous expense when you are talking about a 20-story building, plus the boiler must be changed.


127 East 59th Street, New York, NY 10022
Tel: 212-699-8900 • imeister@matthewadam.com • www.matthewadam.com