

Condo Insights

#29 – The impact of current economic conditions on community and condominium associations – Part 3

This multi-part column looks at the impact of current economic conditions on community and condominium associations. This column will discuss the labor market, including the current labor wage spiral and housing issues affecting seasonal service level workers and increasing costs from labor-intensive service providers.

There are some macro-economic conditions affecting the labor market: There are millions more jobs available nationally than the number of unemployed persons. The pandemic drove people out of the workforce. There are about one million fewer persons under the age of 18 in the United States than there were ten years ago. Birth rates are decreasing to near historic lows. The labor market is tight and that has begun to drive up wages at the bottom of the market.

In recent years, especially in the tourism-based areas of Cape May County, the labor market has changed dramatically. These changes have mostly favored the employee and been more challenging for employers. The single largest change is State-mandated increases in minimum hourly pay rates since 2019. These minimum wage mandates result in substantially higher wages for seasonal positions in tourism areas which are mostly filled by students or entry-level service workers.

Covid-related lockdowns and travel restrictions substantially reduced the number of immigrants and seasonal workers coming to the area in recent years. As a result, employers have had to offer higher hourly rates and other incentives to attract and retain employees. For workers there are more employment opportunities and higher wages.

Employers have had several seasons to navigate this challenging labor market. One strategy to prevent in-season staffing shortages: employers are offering higher pay rates and hiring seasonal workers earlier in the Spring compared to previous years. To retain staff until the end of the season, employers are offering bonuses to employees if they work through a defined commitment date. Some employers are combining this retention bonus with an additional performance-based bonus that can further increase earnings for the seasonal employee.

Hiring challenges also exist for employers seeking to fill skilled, experienced positions and supervisory salaried staff positions, both for year-round and seasonal positions. Whether recruiting via online websites, social media or traditional help-wanted advertising, employers are finding adequate interest in these positions, but a substantial percentage of applicants just don't have the necessary skills and employment experience desired by employers. Once employers identify candidates with the skills and experience required for supervisory and/or skilled positions, these more qualified candidates are seeking higher compensation than employers are paying for these positions. While not common, in some instances employers are poaching qualified staff from their competitors because for seasonal businesses in an area with a relatively short tourism season, revenue opportunities must be maximized every single day.

Associations can expect that service contract pricing for essential systems and equipment such as elevators, domestic water pumps, mechanical and electrical equipment and alarm systems will increase. These service contracts relying on performance from skilled union tradesman are all increasing, but lag behind the rate of inflation.

Smaller contractors are often owner-operated and may be less likely to pass along significant price increases. However, non-union service contractors such as electricians, plumbers, landscapers, painting contractors, swimming pool maintenance and cleaning services also face challenges to recruit and retain workers.

Employers offering health care benefits are seeing employee medical insurance premiums increase at an annual rate well above the rate of inflation. Medical insurance premium increases affect both employers and employees. For employers, increases in health care benefit costs mean overall employee compensation increases. Employees don't necessarily see this as increased compensation because employers may pass through some or all of the increased medical insurance premium by increasing the employee-contribution rate.

The long-term effect of this labor-wage spiral is that payroll costs will likely never decrease. When an employer's overall wage costs increase, payroll taxes and worker's compensation insurance premiums also increase. Employers are passing along these increased expenses through increases in the cost of their goods and services. 2024 is the final year of State-mandated increases in minimum wage, but the more your Association relies on services provided by seasonal and lower paid workers, the more likely your costs will continue to increase and the more difficult it may be to predict your expenses with certainty through the coming year.

An additional consideration: transient and seasonal workers need somewhere to live. The area has far fewer housing options available now compared to pre-pandemic seasons. Landlords that used to accommodate seasonal student housing changed their business to short term rentals or sold their properties. Some landlords are reluctant to rent to college students. Real estate investors looking to maximize rental income opted for short term rentals, further reducing the pool of seasonal housing options.

The Wildwoods are an attractive option for second homes and the housing market continues to be strong. This has been driven in part by second home buyers and investors looking for a shore home priced more reasonably than Cape May or Avalon, by what had been favorable mortgage rates and by the ability of some to work remotely.

To account for this shrinking supply of housing for seasonal workers, a few of the larger private-sector employers are buying rooming houses and converting older motels into housing for their seasonal staff, but that represents a drop in the bucket. Agencies that coordinate seasonal employment and housing for foreign students are always in the search for new properties, with assurances that they can fill all available housing with their students, because part of their agreement is to not only offer job placements but also to secure their housing.

And among social changes, let's not forget the evolution of the American teenager, as many are more involved in on-line activities and those that are working are more selective as to the entry level service positions that they are willing to accept.

Part 4 will discuss how inflation affects planning for major capital projects and offer suggestions on what Association Boards should do and should not do in this current economic environment.

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