SKIMPING ON RESERVE CONTRIBUTIONS DOESN'T SAVE YOU ANY MONEY!

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What's better – $50/mo Reserve contributions (as part of your condo's total monthly assessment) or $70/mo? All other things being equal, I'd rather pay a $50 monthly bill than a $70 monthly bill. But… not all other things are equal.

Let's say you live in a 80 unit condo, and the Reserve Study finds your association needs $5600/mo in Reserve contributions to offset ongoing deterioration and prepare for upcoming Reserve projects. That works out to $70/unit, each month. But the budget is tight (author's note… isn't it always?), and the board wrestles with and proposes $50/mo, because other costs have increased and hey "something's got to give" in order to stay within their targeted assessment increase.

So the association needs $70/mo from each owner, but is only going to get $50/mo. From a purely short term view, no big deal. But I hope the alarm bells are going off in your mind. The association needs $5600/mo to prepare for roofing, carpeting, a replaced lobby entry system, and all the other components in the Reserve Study. There is a 100% chanceall those assets are going to fail and need to be replaced, and you can't pay for those projects with imaginary money.

What happens when that happens? In the short term, no big deal. You pay for any necessary Reserve projects from Reserves. But the alarm bells get louder… the Reserve Fund gets smaller. Eventually there will be a special assessment, when the funds don't exist for these projects that the board saw coming years in advance (cue more alarm bells from increased liability exposure).

The special assessment forcefully takes from the owners the funds that they kept in their pockets while they were enjoying lower Reserve contributions. So the homeowners never really "saved" any money. In addition, in a recent study we found (not surprisingly) that home values in condo associations with weak Reserves significantly lag behind home values in associations with a strong Reserve fund. So there's a bigger factor in play than if Reserve contributions are paid on a monthly basis or via "catch-up" special assessments.

Bottom line: the cost of deterioration never goes away, even if ignored. The roof will rear its ugly head and need to be replaced, usually close to "on schedule", just like all your other components. If ignored, not only will the association get backlogged with deferred maintenance (the cost to repair which often exceeds original cost estimates), property values get dragged down. Save $20/mo on your Reserve contributions, and your owners will pay it all back by means of special assessments, or worse, with lost home values. As you've heard before, there is no free lunch.

See a related short video here.