MAXIMIZING HOME VALUES AT YOUR ASSOCIATION

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Miss the webinar or wish to revisit it? Watch it here.

Most board member training focuses on running the affairs of the association. From our point of view, that means helping the board set a budget that provides sufficient Reserve funds for the long term sustainability of the association. Yet in the course of the work we do for associations, we observe associations that are inviting places to live with strong home values, and associations that are in a state of decline. What are the factors separating these two types of associations?

Looking into this question to learn how we can more effectively guide our clients to an improved future, we found it boils down to choices made by the board of directors to:

1. Budget Accurately & Honestly
2. Maximize Curb Appeal
3. Avoid Deferred Maintenance
4. Avoid Special Assessments
5. Create a Culture of Transparency
6. Build "Community"
7. Adhere to Rules & Standards
8. Employ accredited, credentialed managers
9. Train Board Members
10. Team up with Knowledgeable Business Partners

These points are summarized in an article found here.

Perhaps most significantly, as reported in the webinar we found a link between a strong Reserve fund and maximized home values. You can learn about that relationship and the results we found here.

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WEBINAR QUESTIONS ASKED BY ATTENDEES

Q: Between tenants and other undesirable residents (sometimes owners!) a few of our communities have a bad reputation (aka “the hood”). Owners frequently let the bank foreclose because property values have dropped so much. The Boards have made visual improvements but want to see better residents in hopes to improve the community. Is there more they can do?

A: Changing a community takes time. The gradual transformation takes place when new (assessment-paying!) buyers replace the foreclosed owners, and the board gradually increases the homeowner assessments. Both of these provide additional financial fuel, which improve the common areas, community spirit, and home values.

Q: How does the reserve status of a condo association affect the ability of buyers to finance units in the building?

A: Based on the position taken by the FHA, major lenders are now commonly looking at the association’s budget, wanting to see that at least 10% of the association’s income stream is going towards Reserves. So buyer financing is favorable when Reserve contributions are over 10% of total budget. Lenders typically do not attempt to measure the actual status of the Reserve fund. Note that contributions sufficient to be “adequate” often are 15-40% of an association’s total budget, so exceeding 10% is a very low standard. See an article here on the topic.

Q: Is there a certain percentage, or percentage range, of monthly/annual income that should be designated for the Reserve Fund?

A: As stated above, 15-40% is typically necessary.

Q: Which is more likely to affect the sale of a townhome: a solid reserve fund or the amount of the monthly dues?

A: Having Reserve contributions at least 10% of total budget is key, as stated above. But that’s just a minimum standard. More commonly, we are hearing and seeing that Real Estate agents (and their clients) care more about the common areas showing strong “curb appeal”, and a strong financial position which is a combination of lack of special assessments and a strong Reserve Fund (Percent Funded above 70%). This often results in sales price rising by thousands, possibly at the cost of a few dollars a month in higher homeowner assessments. That’s a great tradeoff!

Q: Can Reserves be used to fund legislated code requirements (specifically Earthquake retrofitting in Los Angeles)?

A: No. Reserves are for repairs and replacements to the association's common areas. See an article on the topic here and here.

Q: Our previous Board did not do any maintenance for more than ten years and now we are faced with extensive repairs and the corresponding large expenditures. What are the best steps to take to explain to the homeowner's that there will be an increase in value of their property and that at the same time we need to increase the monthly fees?

A: Explain that deterioration does not stop when maintenance or Reserve contributions stop. Your association has some catching up to do, physically and financially. Take some photos to document the condition of the association. Consider bringing in a Real Estate Agent as a guest speaker at an upcoming board meeting to explain what needs to be "fixed" and how that would boost home values. Polish your salesmanship skills so you can "sell" the increase, and good luck!

Q: How do you build the perception that spending Reserve Funds creates curb appeal that translates into higher sale prices?

A: Take a look around. Curb appeal is real, as it creates an inviting community. Real Estate Agents regularly report that "It is easy to sell an attractive home".

Q: We get the argument that too high of monthly assessments drive buyers away. Our reserves are too low. What is the balance?

A: The balance is between a few dollars a month in monthly assessments and thousands of dollars in home values. Think leverage. The board has a responsibility to budget sustainably, providing the funds the association needs. Otherwise there will be special assessments, which negate all the supposed benefits of "lower" assessments.

Q: What about value of solar for individual homes and for the common area?

A: Payback value for solar varies by type of installation and region of the country.

Q: The board recently changed reserve study vendors and our percentage funded change from 40% to 69 % without any major changes in funding, or projects. Is there a standard way of computing the funding level so one will not get a huge variance such as this?

A: Yes. National Reserve Study Standards dictate a four-part test for which components should appear in the Reserve Study, and how Percent Funded is calculated. In your case, there may have been an adjustment in Useful Life, Remaining Useful Life, or Replacement costs affecting the calculation of the "needs" of the association, or there may have been a significant change in Reserve balance (finding a CD that was inappropriately coded to the Operating account, etc.)

Q: At our association, our early Reserve Studies only had a very simple/short component list. Do you think that your observed changes in funding between 1998 and 2015 could be due to more sophisticated & detailed Reserve Studies?

A: I am presuming your comment has to do with our comparison of "typical" Reserve funding among our clients in 1998 and 2015. It is possible that our internal standards in recent years have tightened since back in the 1998 era, leading to a lower average Percent Funded evaluation among our clients. But it is my opinion that boards have been increasingly "tight" financially, sacrificing sufficient Reserve contributions which result in overall lower Reserve funding levels. But I believe those few dollars saved in homeowner assessments have resulted in thousands of dollars in lower home values.

Q: Doesn't 100% reserve funded mean you have reserves in the bank now for the next 30 years?

A: That's a common misconception. 100% Funded means the association has funds in Reserves equivalent to the current value of deterioration. It does not mean that the total value of all the components are in Reserves, and that the association has cash "banked" for the future. At 100% Funded, the association still needs to keep making appropriately sized Reserve contributions to continue to offset ongoing deterioration.

Q: Is there any study of what monthly assessments should be relative to the total value of the units?

A: Not to my knowledge, and I doubt there is a relationship. Assessments are based on the expenses at the association, not home values.