



# HOW A RESERVE STUDY PROTECTS OWNER VALUE



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February 2016

[www.reservestudy.com](http://www.reservestudy.com)

Keeping adequate Reserve Funds for the repair and replacement of common area facilities is an essential board responsibility in all Association governed communities. But too many boards fall short of the mark, focusing instead on short-term decisions, conflict management, and routine rituals of organizational life.

It's easy to see why unit owners resist contributing to Reserve Funds. Reserve projects may be scheduled years into the future, while routine operating expenses occur every month. Some owners expect to sell their units before major repair & replacement costs arise. Others simply don't understand that the cost of ongoing deterioration is as real as any other association expense. Boards and Managers that argue for a prudent monthly Reserve contribution face a hard sell.

Maintaining an adequate Reserve Fund is a bit like saving for retirement: a bit of self-denial now prevents a bigger problem later. But self-denial is never popular. Many individuals fail to make adequate provision for their own retirement. It's no wonder many board members and Managers struggle to persuade owners to [adequately fund their Reserves](#).

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## A WELL-MANAGED RESERVE FUND BENEFITS FUTURE AND CURRENT OWNERS

A well-managed Reserve Fund obviously benefits future owners. Less obviously, current owners benefit as well.

A Reserve Study helps boards explain how a sound plan for maintaining or refreshing common property benefits all owners right away, as well as in the long run. As soon as their Association receives and begins to implement the Reserve Study report, current member-owners benefit in several ways:

- **Reduced conflict.** Assessments based on a Reserve Study are founded on hard facts and objective analysis. Owners may still disagree about how quickly to top up their Reserve Fund, but with the report in hand, discussion can proceed from a baseline of accepted facts.

- **Predictable costs.** Without a Reserve Study, owners never know when the next maintenance surprise will bring about a sudden Special Assessment. Once leaders start to act on the Reserve Plan, owners know what to expect, and develop confidence in their Manager and Board.
- **Enhanced resale values.** Savvy buyers take Association fees into account when they decide how much to offer for a unit. One of the most frequent objections selling agents hear from prospects is, “How do I know fees won’t go up after I buy?” A professionally-written Reserve Study is the best response to this concern, because it provides exactly the disclosure buyers are entitled to and the assurance they need.

In all these ways, the current owners benefit from a Reserve Study right away. To maximize these short-term benefits, the Board needs to communicate effectively with owners as soon as it receives its Reserve Study report.

### **Reserve Studies Disclose the Facts**

If the Reserve Study shows that the Association has fallen seriously behind in funding its Reserve, the Board may be tempted to keep the results to themselves, for fear buyers might be frightened by a frank sign of the likelihood of increased future assessments.

Excessive secrecy is not the answer as Buyers are entitled (by law in most states) to the [full financial disclosure](#) a Reserve Study affords. Savvy buyers who might be daunted by a report of a reserve shortfall could be inclined to discount their purchase offer. So the other owners’ market value already has been negatively impacted.

The Reserve Study is a first step toward correcting that situation. With the report in hand, the Association has an opportunity to enhance owner value by starting to adequately fund the cost of ongoing deterioration.

By balancing owners’ short-term interest in low assessment rates with their long-term interest in property values, the board protects all of its constituents. Reserves are not about hypothetical future risks—they are about the predictable cost of ongoing deterioration. Underfunded reserves hurt every owner’s property values right now, so now is the time to correct the situation, which enhances the value of every owner’s unit in the process.

As the Reserve Fund approaches a strong (over 70% Funded) level, prospective buyers will feel confident in making their best offer, knowing that the current assessment rates will protect the value of their investment.

When Associations wait for routine maintenance to turn into emergency repairs, Boards and Managers lurch from crisis to crisis. Unit owners worry about losing value, second-guess their leaders, and resist even minimal assessment increases.

By commissioning a Reserve Study, your board takes the first step toward a calmer, firmer form of leadership. In the long run, people are most influenced by information that their leaders present calmly and consistently over time. [Prudent planning](#) for predictable repair and replacement costs benefits future owners, to be sure. But present owners benefit as well. With a Reserve Study and firm, steady communication, Boards & Managers can help the present generation of owners understand that they, too, can enjoy their share of the benefits of prudent reserve planning.