

**SEARCHING FOR CLUES TO A CONDO'S
FINANCIAL & PHYSICAL HEALTH?**

7 TIPS

**THAT WILL TURN YOU
INTO AN INFORMED
OWNER OR BUYER**



INDUSTRY INTEL

source: hoa-usa.com

It's been estimated that there are **over 370,000 Association-governed communities** in the United States. "Collectively, this represents over 40 million households or over 53% of the owner-occupied households in America."

ALIASES

Association of Apartment Owners (AOAO)

Condominiums (CONDO)

Common Interest Developments (CID)

Community Associations (CA)

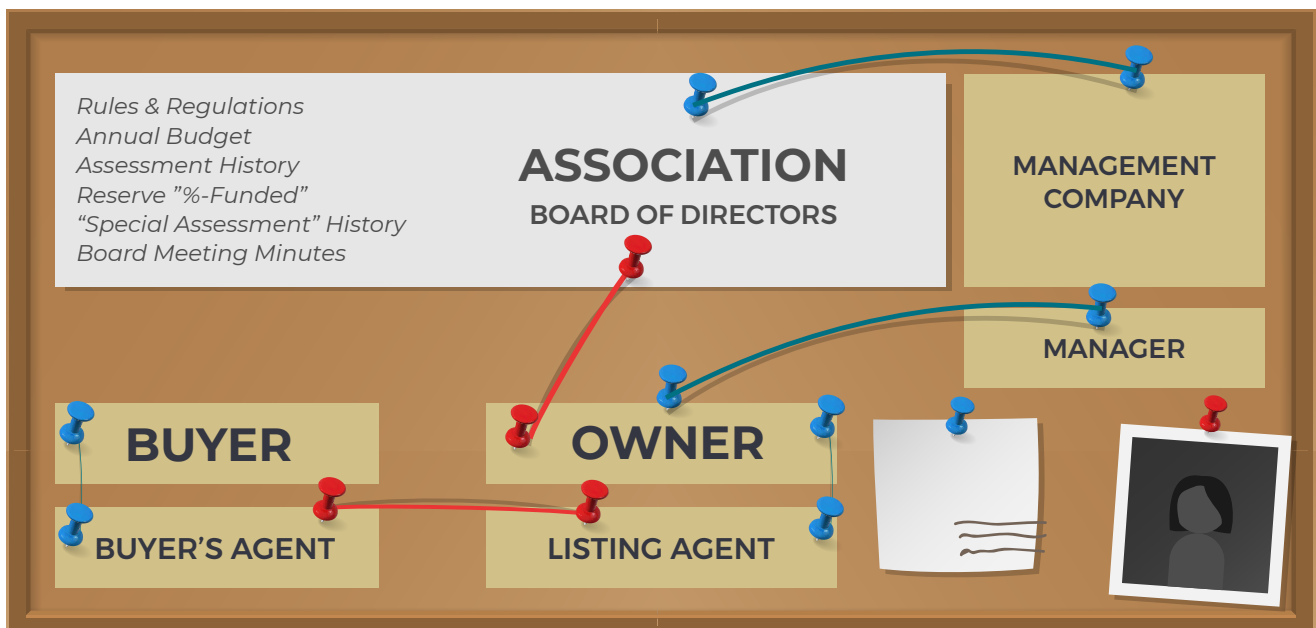
Cooperatives (Co-Op)

Homeowners Associations (HOA)

Property Owners Associations (POA)

Planned Unit Developments (PUD)

THE INFORMANTS



For simplicity, we'll use the term "Condo" and "Association" interchangeably throughout this eBook

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We were shocked, along with the rest of the world, by the collapse of our client property, Champlain Towers South Condominium Association, in Surfside, FL on June 24, 2021. Our hearts are broken for the volunteer Board of Directors and for the families and friends of the 98 people who lost their lives in this unprecedented disaster.

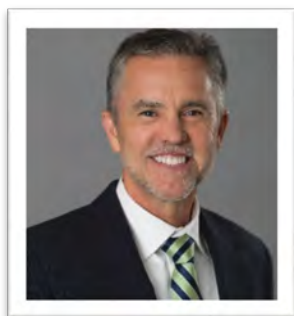


Although the underlying causes of this tragedy have yet to be formally determined, what we do know, based on our 2020 Reserve Study, is that the property was 40 years old and the Association was significantly “underfunded”. Our report made it clear that the building had suffered from substantial deferred maintenance, with many current owners shocked to be facing a huge “Special Assessment” and bank loan for infrastructure repairs and replacements which were predictable decades in advance of this tragedy.

Unlike other styles of homes, Champlain Towers South was an extremely serious (and hopefully rare) example of how the value of a Condo is tethered to the Association’s overall financial & physical health. There were clues all along the way and we owe it to those who lost their lives, and their homes, to learn the important lessons that will prevent such a thing from ever happening again.

Whether you already own a Condo and want to advance your understanding of Association finances, or are shopping for a Condo you can call home, we offer 7 Tips. These tips are from the perspective of a Professional Engineer and Reserve Specialist with over 30 years of experience in this industry. My hope is that you will allow these 7 tips to be your guide as you search for clues about the financial and physical health of the Condo you currently own... or are considering purchasing. I’ve included some Association-inspired cartoons (compliments of gogladly.com) to lend some light-hearted fun to your investigation.

Good luck!



**ASSOCIATION
RESERVES™**

Planning For The Inevitable™

ROBERT M. NORDLUND, PE, RS
Founder/CEO

Association Reserves has prepared over 65,000 Reserve Studies for Association-governed Communities throughout the United States.



REVIEW THE RULES & REGULATIONS

Are they being enforced?



You'll want to see what the Association allows... and what it doesn't allow. Because rules protect property values, it's a good sign if there is a clear community-building reason for why each rule exists. Or are there so many guidelines and restrictions in place that it feels overbearing? Remember too, that rules are only effective if they are enforced... and enforced uniformly. Can you observe any serious infractions that the Board has let slide?



CHECK THE ANNUAL BUDGET

Is it balanced, being followed, or trending negative?



A balanced budget bodes well for any financially stable Association, while trending negative is always a red flag! A budget that relies on deferring necessary repairs & replacements, or borrowing from "Reserves" to pay for "Operating" expenses is a deficit budget and simply not sustainable. Deficit spending is a sign that the Board may not have a good grasp on the basic principles of managing a Condo in a financially and physically sound manner.



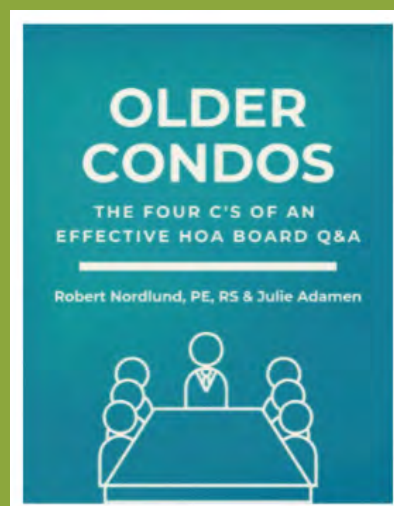
FIND OUT ABOUT ASSESSMENT INCREASES

Have they gone up in the past 5 years?



In an inflationary economic environment, annual assessment increases should not come as a surprise. So take it as a good sign for a Condo to have raised the assessments at least 3x in the last five years. No assessment increases is a definite red flag! It could be an indication that Boards have consistently buried their heads in the sand. Don't be misled or deceived by the "fool's gold" attractiveness of low assessments as so many other Condo Owners and Buyers have.

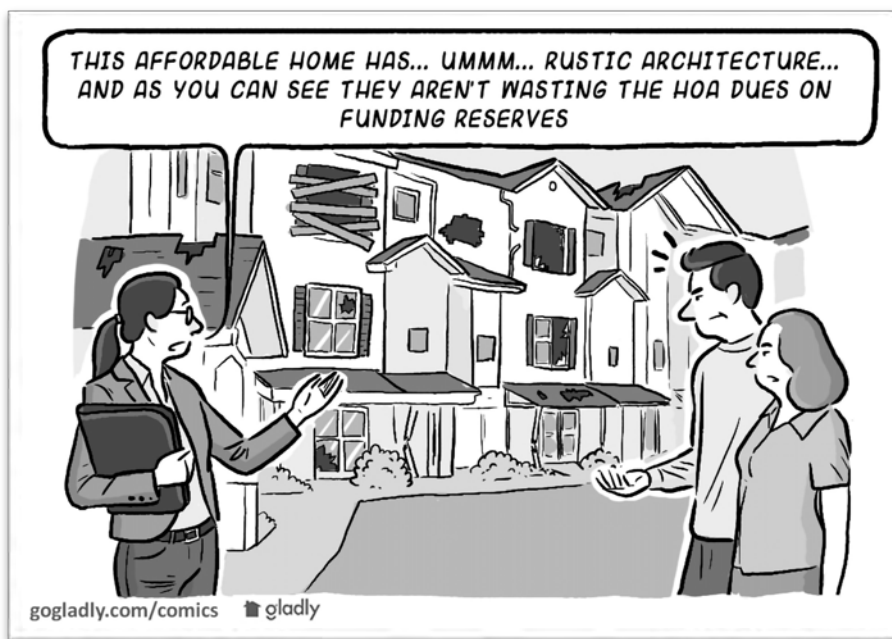
OLDER CONDO RESOURCES FROM ASSOCIATION RESERVES



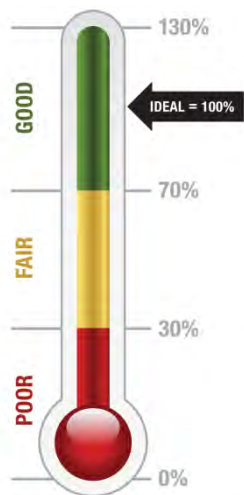


CHECK THE RESERVES “%-FUNDED”

Does it fall in the Good, Fair, or Poor Range?



Reserves “%-Funded” measures the strength of the current Reserve fund and is one of the three key results of a Reserve Study. A Reserve Study that has been prepared within the past 3 years by a credentialed specialist provides a plan to a secure future. Associations without a recent Reserve Study should raise alarm bells.



RESERVE FUND STRENGTH

That's because %-Funded is the only way to link a Condo's financial & physical health.

Since this metric applies to all Associations, regardless of their size and the scope of their common area, it's a much more valuable clue to fiscal health than looking strictly at the amount of money the Association has in its Reserve account, or the size of the monthly assessments.

Based on %-Funded, Condos fall into one of three categories:

Good - Over 70% Funded - Special Assessments are rare

Fair - 30%-70% Funded - Special Assessment are infrequent

Poor - 0% to 30% Funded - Special Assessments are common



5 ASK ABOUT THE HISTORY OF SPECIAL ASSESSMENTS

How many have there been in the last 5 years?

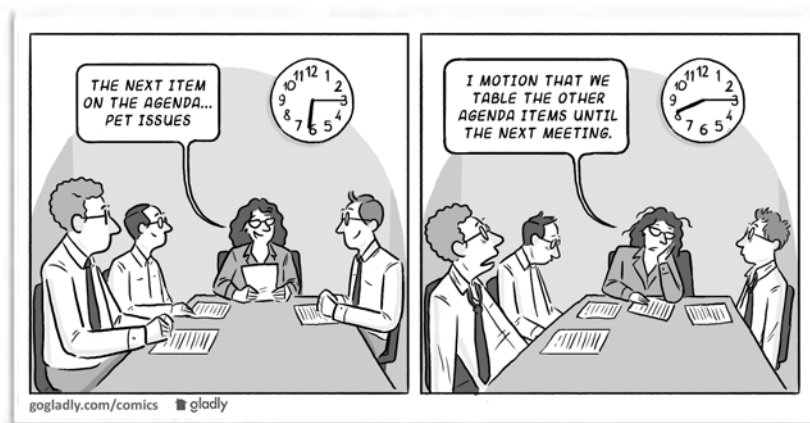


Setting aside Reserve Funds over time is the fairest, least expensive, and most responsible way for Associations to prepare for major repair & replacement projects that are both predictable and inevitable. And it's the primary way to avoid "Special Assessments" which are always dreaded and divisive. That's because the financial responsibility for Special Assessments always falls on the current set of Owners, regardless of the length of ownership or how long prior Owners may have benefitted from underfunding Reserves. Recurrent Special Assessments reveal a budgeting approach that fails to acknowledge the very real cost of ongoing deterioration.



6 READ THE PAST 12 MONTHS WORTH OF BOARD MEETING MINUTES

Are they mostly about people, pets and parking?



A year's worth of meeting minutes should be enough to reveal what topics have captured the Board's attention. Be impressed if the minutes use a structured format by consistently containing a record of Board member attendance, decisions that were made, actions that needed to be taken, and responsible parties. Good meeting minutes will also include reports and relevant documents referenced at the meeting. Since the primary responsibility of the Board is to protect and maintain the property, there should be an obvious emphasis on issues related to the Association's financial and physical health. Be concerned if there are no meeting minutes, if some are missing, or if the Board has been preoccupied by minor issues at the expense of important decisions that affect home values.



CHECK FOR DEFERRED MAINTENANCE

Simply look around!



You don't have to be a professional property inspector to notice obvious signs of disrepair or neglect. Deferred maintenance is a definite red flag. You should observe the appearance of the common areas closely during the day and at night. Look for telltale signs of the Association staying on top of maintenance, or falling behind.

Be curious! Is the landscaping healthy and attractive? Can you observe cracking or lifting of the concrete sidewalks? Are the carpets attractive or worn and threadbare? Is the paint fresh, or faded & chipping? Is the pool and spa clean and inviting? Check to see if the tennis court is in good service and whether the lobby and clubhouse furniture is current or outdated. Visiting at night will make it easy for you to tell whether the building and grounds are well lit, or if the Association has fallen behind on the simple task of replacing burned out lightbulbs.

ANOTHER CASE **SOLVED**

A balanced budget, with appropriate assessment increases, infrequent special assessments, and a %-Funded that falls in the "Fair to Good" range are all indicators of a financially and physically healthy Association.

Condos with a %-Funded that falls in the "Poor" category are operating on a deficit budget. Artificially low assessments and a history of frequent Special Assessments points to potential dysfunction. All of this means that Owners may have to endure deferred maintenance, and may eventually be hit with a Special Assessment when necessary repairs & replacements can no longer be ignored.

Following these 7 tips will turn you into an informed Condo Owner or Buyer! If you own a Condo in a healthy Association, you will gain peace of mind knowing that the value of your home is being protected. If you own a Condo in a dysfunctional Association, you can knowledgeably bring your concerns to the next Board meeting. And if you are in the market for a Condo, you'll be able to factor financial and physical health into your purchase offer and make a wise choice about where to call your next home.



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