What is a Reserve Study?

Robert M. Nordlund, PE, RS
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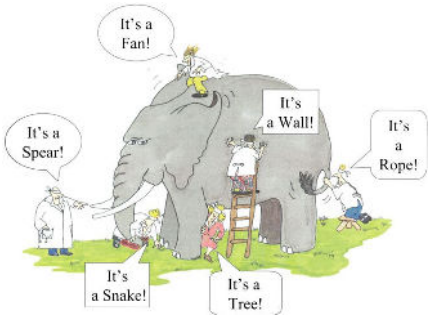
Introduction:



So – what is a Reserve Study? It depends… on your perspective. If you are a lender, it tells you one set of facts. If you are in the insurance field, it tells you other things. And if you are a boardmember or homeowner, it tells you a third set of information. But at its heart, it is one document, providing infmation valuable to at least three sets of people… four if you add prospective homeowners.

Per National Reserve Study Standards: a Reserve Study is *a budget planning tool that identifies the components a community association is responsible for maintaining or replacing, the status of the reserve fund, and a stable and equitable funding plan to offset the anticipated future major common area expenditures.*

Lenders primarily look at a Reserve Study to see the % of total budget going towards Reserves, the upcoming cost of near-term projects (typically in the next five years), and the recommended Reserve transfers. Expect the lenders will compare the recommended Reserve transfers to your budgeted rate. They're not going to be pleased if they find your association funding less than is recommended. And they care about Reserve Studies being less than 36 months (three years) old.

Insurance professionals are looking at the Component List to see if most of the components are "ok", or if there are many with a Remaining Useful Life of zero (or something close to zero). They also look to see if there are some major projects (roofing, elevator, asphalt, painting, etc.) that are due to be accomplished in the very near future. They are looking to see if the association is doing its job to maintain the common areas, or if they are risking some accidents (insurable losses) related to delaying projects that need to be accomplished or are overdue. Expect that a large number of expensive, old projects will invite higher insurance premiums, because insurance companies don't want claims related to projects the association should be handling with their own money. They also want to see Reserve Studies less than 36 months (three years) old.

Finally, let's get to the people living at the association: owners and boardmembers. The boardmembers see it as a decision-making tool, helping them know what projects to prepare

for (so they can plan their year and get proposals in advance), the strength of their Reserve Fund (is the association's financial starting point weak, fair, or strong?), and finally, how much needs to be transferred on a regular basis to offset ongoing deterioration and provide the cash for upcoming projects.

So depending who you are, and what you're trying to find in the Reserve Study, in some ways it is a disclosure document (showing the current state of the association), and in another way it is a recommendation document (pointing the path forward).

Just remember… a Reserve Study is no substitute for a thorough preventive maintenance plan, a structural evaluation, or a safety evaluation. Those are different specialties. Remember the definition of a Reserve Study… it is fundamentally a budget planning tool.

One key takeaway to check if you were listening… does Reserve funding increase the cost of homeownership at the association… even with raised Reserve funding? The answer is no. The roof doesn't care if you're funding Reserves or not. It will fail, generally right on schedule. So either you budget for that cost over time, or your owners pay it via a special assessment or a loan. Owning and maintaining Real Estate is expensive. Plan on Reserve funding being in the range of 25% of your total budget. To find out how much your association needs, you'll need an updated Reserve Study (at least every third year).

Summary:

Want an experienced professional to prepare your next Reserve Study update, ensuring appropriate component selection, life estimates, pricing, and development of an appropriate Funding Plan *custom designed* for the needs of your association? Launch a free online proposal request by clicking here. See our network of regional offices across the country here, serving clients in all 50 states.

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Other Links:

"Understanding Reserves" book (**updated for 2025**). Order single copies on Amazon here, or download chapter one for free here.

Learn about uPlanIt, our free online Reserve calculator tool here

Read or download our white-paper "Navigating Inflation and Investments: Strategy Guide for HOA Reserve Funds" here

Three Quarters of Associations are Underfunded, What that Means for You (here)

Handling Aging Infrastructure – Reserve Planning for Older Communities (here)