ASSOCIATION RESERVES®

Planning For The Inevitable

RESERVE FUNDING – IT'S NOT ABOUT THE FUTURE

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One of the biggest misconceptions about Reserve Studies and Reserve Funding is that they are primarily about "preparing for the future." While identifying and planning for future repair and replacement projects are essential, the real purpose of Reserve Funding is much more immediate and practical: ensuring that current owners are paying their share of ongoing, day-to-day, current deterioration.

This distinction matters because many owners view Reserve funding as "savings" for a future project that will never benefit them personally. In reality, Reserve Funding is simply paying for the gradual wear and tear occurring while owners are actively using the association's common-area assets. When everyone pays their fair share, the future takes care of itself.

Roofs age. Asphalt dries and cracks. Paint fades. Elevators wear. Pool equipment deteriorates. Even though the actual cash expenditure may occur years later, the deterioration itself is happening continuously and predictably in plain sight.

A Reserve Study helps quantify this ongoing deterioration. It identifies the association's major common-area components, estimates their useful lives and replacement costs, and calculates an equitable funding plan so the cost burden of this ongoing deterioration is distributed fairly among the owners.

Reserve Funding Is About Fairness

Reserve Funding is not charity for future owners. The ongoing cost of deterioration is as real as any utility bill or operating expense. Just because the roof, asphalt, or carpet doesn't send a monthly bill doesn't mean their useful life isn't being "consumed". The owners currently enjoying the use of the assets should pay for the portion they use during their ownership period.

When Reserves are consistently funded, each owner pays their proportional share of asset deterioration. Future owners then inherit partly deteriorated assets and a Reserve Fund properly sized for that amount of deterioration.

When associations underfund Reserves, however, they effectively shift today's costs onto future owners. That often leads to deferred maintenance, special assessments, reduced property values, owner dissatisfaction, and unnecessary financial stress and a disproportionate financial burden on future owners.

Reserve Studies Provide Financial Stability

A professionally prepared Reserve Study gives association leadership a long-term financial roadmap, providing continuity over the years as different board members come and go. A Reserve Study helps boards make objective and informed budget decisions, rather than submitting to short-term financial or political pressure. Wishful thinking is not a successful financial strategy. Your major components don't sympathize with boards who feel they "don't have enough" money to properly fund Reserves. These components continue to deteriorate at the same, steady, unyielding pace. Mother Nature and Father Time are relentless. This is why funding in line with ongoing deterioration is so important, and ensures each owner pays their fair share of the "true cost of ownership". When funded responsibly, special assessments will occur only due to true emergencies, not because of predictable deterioration (in plain sight!) that was ignored for years.

While associations funding Reserves will have higher ongoing assessments, the result is a higher level of maintenance, an absence of costly deferred maintenance repair projects, higher standard of care throughout the association, a greater pride of ownership, greater financial stability, and higher property values. Our 2017 study (Association Reserves, ReserveStudy.com) found that well-funded condo associations enjoy 12.6% higher home values (on a $/Sq Ft basis) than significantly underfunded associations. Subsequent market observations continue to support this finding, which goes to show that buyers can truly see the difference. Compare these higher home values to a few more $/month in Reserve funding, and you'll see that Reserve Funding is one of the wisest investments you can make!

The Bottom Line

Reserve Studies and Reserve Funding are not solely about the future. Reserve funding is not charity for future owners, it's simply a usage fee for ongoing deterioration. Set your association up for success, and create a stronger, more financially stable community in the process by making appropriately sized Reserve transfers that pay your "deterioration bill" on an ongoing basis. Deterioration is real. Don't kick the can down the road, and don't leave that burden on the next owner. Fund your Reserves!