Manager's *Perspective...*

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How to Get Community Business Done Faster & Easier

Start Saving Now for Future Repair Expenses

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The majority of condominiums and co-ops in Lower Fairfield County were constructed in the early-to-mid-1980s. Many of the property system components are reaching the end of their useful lives.

Association boards who are in charge of running the property are left with a tough decision: "Do we fix the costly problems or wait until our term in office is over?"

For many people a condominium or co-op is their first home. Most of the challenges and costs of singular homeownership are not born by the homeowner but by the collective association. Communicating the responsibilities of repairing common area elements is a difficult task. A first-time homebuyer may not know the importance of asking how old the roof is, or if the reserve fund is adequate to cover the replacement cost.

Often common area problems are not discovered prior to purchasing a unit. Delayed discovery can lead to mistrust and tension between new owners and the board. The negative feelings can sometimes get in the way of making decisions that are necessary for the property.

However, procrastination just stands in the way of inevitability. As a car part has a certain wear life, so do the parts of your building. For example, common area carpeting has a typical life of 12 years, asphalt paving 15 years, shingle roofs 20, and concrete pavement approximately 30 years. However, there is even more bad news – if a community has not followed a proper preventative maintenance schedule, the component life can be further reduced.

Some associations may be misled to believe that having a preventative maintenance program alone precludes a community from funding an adequate reserve. But the two budgetary items serve different roles.

A maintenance repair returns property to a former condition without extending its useful life. An example of a repair is patching a roof at the source of the leak. A replacement reserve is a fund to replace the system and extend its useful life; for example, replacing the entire roof.

The repair or replacement issue must be carefully addressed to ensure that the core problem is fixed most efficiently. When a part fails it either requires repair of the component or replacement of the entire system. Most communities try to fix the problem at the lowest possible one-time cost. This method may or may not turn out to be the most cost effective. For example, a security garage door system has many moving parts. First, the motor may have several parts that cease to work over several months, and then the axle bearings may burn out.

Sometimes it makes sense to purchase a new unit rather than repair it piece by piece. Imagine what the costs would be to build a car one part at a time rather than buying a complete car? Or if you repair the old car and replace one part after another, it begins to add up. A determination from a trusted contractor is one sure way to know, versus making a decision based purely on cost.

An association must be prepared to recognized and deal with tough decisions. Many community governing documents such as the Declaration and By-Laws do not include a replacement reserve fund. Other documents do not account for inflation properly by levying a flat fee in an amount appropriate in 1980 to fund a reserve versus calculation a percentage that would change over time. Or a community board may not be willing to increase common charges to keep pace with rising expenses – so it instead withdraws funds from reserve accounts to fund more costly daily operations. After going down this road, communities start having problems paying their routine bills.

A community can increase its property value by maintaining an adequate reserve account funded regularly. The first step in building a reserve fund is starting a small allowance in your budget. An easy way to demonstrate how a reserve works is to look at it from a single unit point of view.

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If Frances purchases a condominium and knows the carpeting will need replacement in ten years for $1000, she will set aside $100 annually to pay for the future expense. Similarly, the collective community saves for replacement of building components. However, it is only possible to save for future expenses.

It may be too late for a reserve fund to add up and fix what needs attention now. If the community historically has chosen to hire the lowest-bid versus the best-value contract, to rebuild equipment one part at a time rather than replacing some new units, use cheap materials rather than warranty parts and practice deferred maintenance over preventative maintenance, you may have current necessary repairs to make that can no longer be delayed. What can you do?

Two ways current capital expenses are funded are through special assessments or borrowing money from a lender. The advantage of funding the projects by special assessment is that you do not have to pay for underwriting fees or interest expense. The disadvantage is you usually only have one to three months to raise the money to pay contractors and not all owners can financially handle the added expense. Subsequently, it will be more difficult to obtain a passing vote to perform the work.

Borrowing money from a lender gets rid of the inconvenience of several lump sum special assessments. The load allows each unit owner to pay a smaller monthly charge over a longer period of time. Current interest rates are still relatively low even thou commercial loan rates have increased since last year. Associations interested in financing replacements need to keep an eye on changing interest rates.

Several items to discuss during the planning stage are: how many projects are we facing, at what point in time should they be addressed, how long will they take to be completed, what are their costs, should we fix several at one time, and should we borrow a little extra money to jump start our reserve? Furthermore, ask the lender if an association load will affect individual owners in future refinancing.

In addition to low interest rates, it may be a good time to negotiate with contractors in a softer economy. Associations may have more leverage in terms of price, contractor financing or breaking payments up over several months.

By confronting the serious issues facing their property, an association will increase unit value, reduce maintenance expenses, insurance and utility costs, improve neighbor relations as a result of fewer maintenance headaches, and preserve a unit owner's number one asset, their home.

Right now is the best time to proactively manage your community to preserve, protect and enhance its value. ■

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