



Reserve Studies for Community Associations

By Associated Property Management

Since the year 2000 we have experienced rapid increases in housing values and building materials. Most associations are sorely under-funded in their Reserve Accounts due to using inadequate or unrealistic assumptions for their reserves. This is not anything that has been done on purpose but rather, it has crept up on most associations that have not had reserve studies done in the last few years.

Increases in the cost of oil, building materials, labor costs, insurance, and overhead and inflation factors have all contributed to major increases in roofing, painting and paving. In addition, most other major components that may make up an association reserve fund have also experienced major increases. Elevators, pools, decks, fencing and landscaping have had large increases as well.

The purpose of performing a reserve study is to provide a basis for the funding of the repair, replacement and maintenance of the components that the association is responsible for. We strongly suggest that an association have a professional reserve study performed on the major components that make up their reserve fund.

For condominiums Chapter 718 defines the minimums for the association to follow. This includes roofing, painting, paving and any other component that costs more than \$10,000.00. In today's market, that includes most items for a building.

For an association that is governed by Chapter 720, the documents and common business sense will dictate the minimum amounts and components that should be reserved.

The scope of a proper reserve study will contain the following information:

1. Will identify the components which should be included in the reserve study.
2. A physical inspection of the buildings, mechanical systems, common elements, including paving.
3. Field measure the components that have been identified.
4. Current cost estimates for replacement for each component will be established using various nationally accepted cost estimators and local contractors, if necessary.

5. Each component will be evaluated in order to determine their normal life expectancy.
6. The normal remaining life needs to be estimated for each component. This estimate will be based on normal usage, with normal maintenance.

The normal annual contribution will be calculated for each component, based on a normal life expectancy.

Based on all of the information above, calculate and establish the current reserve deficit or surplus. Further calculations will be made to fund the deficits, if necessary.

As a Board member I would want to have this information in order to proceed with presenting a proper and accurate budget to the membership. As a member I would want to have this information in order to see if the reserves have been or will be properly funded. With this information, if not fully funded, I would then be able to calculate the cost of a special assessment if a component had to be replaced prior to its scheduled time. In addition, as a member, if the reserves were funded properly or over-funded, I would definitely point this out to a potential buyer, thus showing evidence that the association is managed well and that special assessments will probably not be necessary in the future.

A unit in a well-run, properly funded community or in a building is worth much more in the marketplace than a unit in a community that will have to have special assessments to fund any repairs.

When hiring a company or a service to provide reserve study analysis information, make sure that the company has been in business for a while and has a proven track record. Get and check references from other associations. Also, we suggest that you see a sample of their reports prior to hiring them. Is this the type of information and in the form that you require?

A professional reserve study will help to show the long term financial health of your association and if required, the association can then make the adjustments to their budgets that will correct the past.

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