

Inspecting your buyer's prospective HOA



By Rick Bunzel

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HOA's are becoming prevalent in the real estate industry. Inspecting the Home Owners Association (HOA) is just as important to our customers as looking over the neighborhood. Many clients don't understand the importance of this organization and the potential impact on their homeownership. As an inspector I am only concerned with the condition of the structure but as the buyer's representative you will want to look much closer at the HOA. Here a review of items that should be covered as part of the inspection.¹

The HomeOwners Association (HOA) typically owns the buildings, grounds and other facilities. The HOA is responsible for the upkeep and care of buildings and grounds. The original developer determined the Covenants, Conditions Restriction (CCRs) and how the HOA is setup. Small associations are self-managed while larger associations may have a management company. Under the guidance of a board of directors, one of the association's primary responsibilities is managing the dues and other money collected to fund the operating budget of hundreds of thousands of dollars. The board may directly manage the maintenance and upkeep or have a management company do it. Budget monies are dispersed for repairs and the upkeep of common area components -- the condo buildings, other structures, landscaping, lighting, walkways, paving, swimming pools, decks, etc, as well as for other operating expenses such as insurance.

To determine the health of the HOA, look at some key areas:

- Responsiveness – a good benchmark is when you first contact with the HOA and how quickly they respond to your request.
- Current condition of the buildings – a home inspection should cover a both the inside condo or townhouse as well surveying the condition of the exterior of the buildings. The inspector can give the buyers an assessment of the condition and near-term maintenance. In a near perfect world this should match the maintenance plan and budget.
- Maintenance plan – the HOA should have a plan for both short term and long term maintenance. The level of detail may vary but all major components of the buildings have a known life expectancy. The older the building the more maintenance it will need. Dollar values for replacement need to be taken into consideration

- Finances – What is happening to the dues coming in and how much of the dues are delinquent? Maintenance reserves are another area of focus. This area may be broken out into designated accounts such as roof replacement or one lump sum. This amount may vary depending on the number and age of the buildings within an HOA. A board may also choose to finance this debt. This may be a wise move when a major upgrade is needed such as new windows and doors. However, this may affect the value of the individual units.
- Number of owner occupied units – basically the greater the number of owner occupied units, the better the complex will be taken care. Frequently the Mortgage Company requests this information, as they know that more owner occupied units decreases their risk.
- History of special assessments – If the board doesn't have a realistic maintenance plan (with adequate cash reserves) and a major item such as the roof or sewer lines needs to be replaced, then they will have to go to the members for more money. This is called a special assessment. This assessment might be in a lump sum or spread over months.
- Management – Is there a history of complaints against the management? Is maintenance getting done on time? Collections are unresolved?

Here is a 10-item checklist that you can give to your clients. By no means is it exhaustive but it's a good start:

1. Do new owners receive informational packets to get them started on the right foot?
2. Are all meeting minutes made available to members? Are past minutes available?
3. Are all board meetings open to members?
4. Does the HOA have and follow a Maintenance Reserve Study?
5. Does the Board consult with an attorney when proposing new policies or rules?
6. If self managed, do they have a reliable system for emergency response?
7. Are regular financial statements reviewed by the Board and then distributed to the members?
8. Are records available for inspection by members?
9. Are rules and architectural guidelines easily available to the owners?
10. Are members given a chance to comment on proposed rules and policies?

One client bought a condo in a complex that needed a new roof and siding. The board decided that both needed to be done and didn't have adequate reserves. They decided to levy a special assessment of \$200 per month for two years to cover the cost. Since this happened several months after the client moved in, it came as a surprise. This particular client was already on a tight budget and the special assessment hurt them financially but relatives helped them through. However, for many first time owners, they don't have the reserves or relatives and they may end up losing their new home.

At least 8 in 10 buyers obtain a home inspection to determine the physical condition of a home before they close the deal, but most buyers aren't as likely to pay attention to a

HOA's health when it is necessary. When you are working with buyers of a town home or condo, encourage them to "inspect" the condition of the HOA.

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