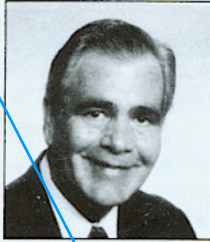




Preserving, protecting and maintaining

BY FRED KREUTZKAMP

Every board member of a common interest development (CID) is familiar with the term "preserve, protect and maintain." If your association is substantially past the developer to homeowner transition (say five years or more) you've discovered the realities "underfunded reserves" and exaggerated "useful life" and miscalculated "replacement costs."



Transitioning towards your proper reserve contribution often requires increases in dues. The boards with sufficient stamina to take this approach are to be commended.

Some boards are faced with the problems mentioned above and suffer from original, shoddy construction. If the board is diligent and the association falls within the statute of limitations, they have recourse back to the developer via mediation, arbitration or by filing the dreaded "CD" words (construction defect lawsuit).

In California, construction defect lawsuits, while still numerous, are dwindling. The reason for this three-fold.

1 Most homeowner associations have aged passed the statutory deadlines or have already sued their developer.

2 Fewer common interest developments have been built in the last few years due to the fear of being involved in a lawsuit of this type.

3 Those developers that are building CIDs have learned from their mistakes and are just plain building a better product.

Aging community associations is now the number one problem facing our industry (CACM Conference, 9/97). Underfunded associations frequently use band-aid repairs on problems that require a longer-term solution. This may allow them to look good as they didn't have to increase dues but for their members, the handwriting is on the wall.

Sooner or later (and probably sooner) they're going to be faced with the dilemma of having to special assess their members or see a lender. Either of which could have been avoided. Mind you, as a banker I'm not saying that borrowing money is a bad thing, just that it cost more than using your own cash.

Preserving, protecting and maintaining are important ingredients to stabilizing and increasing market values of your members' units. While important, they should be expanded to include the word "enhance." The life blood of an association is the continuance of their income stream (its monthly dues payments). Stable and increasing values are the result of perceived desirability of the community.

If your community does not create that aura of desirability, the number of prospective buyers will drop. Make sure that your members realize the benefits of their dues as it relates to their equity position. Once realized, paying an extra 10 bucks or so a month in increased dues isn't so hard to take.

■ Fred Kreutzkamp is a senior vice president of Bank of Commerce in San Diego, CA

Reserving for building restoration

BY ROBERT J. PETRISIN

During the 1980s, more than 1,800 community associations were being built annually in California. The majority of these associations are more than ten years old now and the buildings have entered a phase a life known as "structural mid-life crisis."

With the normal 10 year statute of limitations expired (the period within which construction defect suite must be filed), the association must now be concerned with future soil subsidence and construction defect problems that may appear with time.

Association management that lacked a properly-prepared and implemented preventive maintenance program, since developer control was relinquished, find themselves in a precarious situation.

In Newport Beach for example, annual termite inspections went unchecked at an 83-unit complex since the beginning for 19 years and caused havoc to major structural building components. Special assessments of \$2,000 per unit were necessary to allow for funding of this building restoration.

Although a preventive maintenance program cannot stop construction defects from appearing with time, the earlier the defect detection, the less severe the impact.

Soil subsistence problems initially appeared at a 16-unit complex in Pasadena several years ago. The concrete patio slabs/steps began to crack and then eventually sink. Moisture began to appear on the foundation walls located in the subterranean garages directly adjacent to the patio slab. The board lacked a reserve study at the time and it was during this routine "on-site" inspection (with field report) that the problem was documented.

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If you have a question concerning HOA-related banking issues that you would like Mr. Kreutzkamp to address in "On the money," send it to:

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or fax it to (619) 578-1287

The field report recommended the board to hire a specialized consultant that allowed for problem identification and resolution. Special assessments will be necessary for funding this building restoration in the immediate future.

The list goes on and on, but this article doesn't. The following guidelines may prevent these unnecessary special assessments from occurring at your association due to building restoration.

- 1 Develop and implement a preventive maintenance program.
 - 2 Mandate "on-site" inspections (with field report) by qualified personnel at least every three years.
 - 3 Reserve for building restoration (at least \$1,000 per unit over 30 years).
- Reserving for building restoration may seem ridiculous at the moment, but association management will be better prepared to fund completely or at least defray the cost of building restoration projects that will appear — even at your community association — with time.

■ Robert J. Petrisin is president of Strategic Reserve Consultants (SRC) in Temecula, CA.

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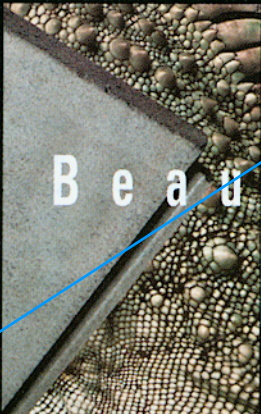
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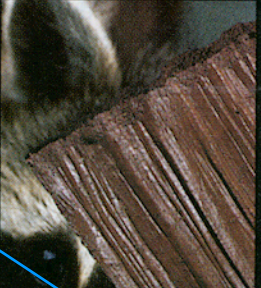
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