

What to look for when shopping for a condo

When you are shopping for a condominium unit, you are essentially shopping for a community. Living in a common interest development (CID) as a member of a homeowners association (HOA) offers certain benefits and requires specific responsibilities not otherwise present when owning a single-family residence (SFR). Before you commit to a CID, it is important to explore the operating budget of the HOA, the membership fees and any future assessment obligations that come along with your condo.

In order to generate revenue, HOAs charge members with **regular assessments** and **special assessments**. Regular assessments fund reserves and the operating budget to pay for the cost of maintaining the structure and common areas of the neighborhood. Special assessments are levied when the cost of repairs or replacements exceeds the amount available through reserves and regular assessments.

A prospective buyer can use the HOA's **pro forma operating** budget as a starting point for analyzing what financial impact an HOA will have on their annual income. This review will disclose:

- an estimate of the revenues from assessments and anticipated expenses during the fiscal year covered by the budget, noting the delinquencies;
- a summary of the HOA's cash reserves, itemizing:
 - estimated repair and replacement costs of each component of the structure owned by the HOA;
 - the cash reserves needed to pay for the repairs or replacements; and
 - the cash reserves available to pay for repairs or replacements; and
- any anticipation by the HOA's board of directors as to whether special assessments will be required in the future for reserves, repairs and maintenance.

An interested buyer can also request a statement of the HOA's policies for enforcing collection of delinquent assessment payments. It is important to know, before purchasing a condo unit, if:

- the HOA records a **Notice of Default** (NOD) and proceeds with a trustee's foreclosure, which can be cured by the payment of delinquencies and small foreclosure costs; or
- the HOA hires an attorney and files a lawsuit, which can amount to much higher personal costs.

Researching the inner workings of an HOA before purchasing a condo unit is of paramount importance to the financially conscious buyer. An HOA is obligated to provide the owner of a CID unit any documents they request within ten days of the request. Work with your agent to obtain this information from the seller to ensure you make a well-researched decision.