

## Before buying into a multifamily residence, be sure to carefully research the ins and outs of the homeowner's association

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CTW FEATURES

Home shoppers who yearn to own a property without all the normal upkeep like mowing, raking and shoveling typically end up purchasing an attached multifamily residence like a condominium or townhome unit. While these homes offer many convenient perks, they come with an added price: a required monthly maintenance assessment fee that covers the costs of these services, which are managed by the community association, also called the homeowner's association.

An HOA is an organization of homeowners residing within a particular multifamily development or subdivision that is in charge of preserving community grounds and facilities and providing services for the common benefit of its residents.

These grounds usually include the parking lot, shared hallways, the gated entrance, any sports or fitness facilities and more. Depending on the community, the HOA often has a governing board responsible for representing the property's homeowners, hiring property managers and maintenance providers.

Some HOAs acquire a bad reputation for being too restrictive or dictatorial due to poor planning and mismanagement of funds. For these and other reasons, it's important to do your homework on the association carefully before purchasing in that community, say the experts.

"If there are serious problems in an association, it should be a factor in your decision to purchase a unit in the association," says Kenneth Arnold, CEO of Association Financial Services, Hallandale, Fla., who recommends asking a number of important questions of the

- What are the current assessment fees and how often are they charged?

- Have there been any special assessments discussed or planned and, if so, for what purpose and how much?

- What is the current past-due balance and aging profile?

- What percentage of the accounts receivable are paid on time every month?

- If the HOA is not receiving 100 percent of their assessments on time, is the budget artificially increased so that the good-paying owners are compensating for the shortfall, or are they cutting services to compensate?

- If they cut services, which have been cut or reduced?

- Are the accounts receivable serviced by an independent third party other than the property manager to prevent a conflict of interest?

- Are there structured accounts receivable policies and procedures in place that reduce the risk of loss to the HOA and the owners?

Bonnie Russell, owner of 1stpick.com, an agent-matching service based in Del Mar, Calif., suggests also asking other important questions, such as:

- What are the reserves?

- How many homes are owner-occupied?

- Is there any pending litigation?

- How many units are in foreclosure? Is the HOA working with the banks to get the balance paid off prior to foreclosure? How much of the reserves will be dedicated to upkeep of the foreclosed units?

Also, prior to purchasing an attached home, it's imperative to ask the HOA about limitations and restrictions regarding parking, pets, outdoor décor/furniture and grilling, says Robert Jenson, founder/CEO of The Jenson Group, Las Vegas.

"The HOA should provide you with all the answers you are seeking or, at the very least, the means for you to find those answers," Jenson says.

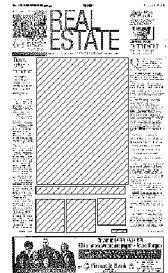
Keep in mind that an HOA has no legal responsibility to provide covenants, conditions and restrictions to nonmembers of the HOA, says Kraig Kast, CEO of Atherton Trust Co., Redwood Shores, Calif. Most states require the seller to provide a copy of the CC&Rs to prospective buyers, but the seller of the home you're interested in should get answers to your questions from the association.

If these answers are inadequate, "I would question whether I would buy in that community," Kast says.

If you have a real-estate attorney lined up, it's probably a good idea to have this expert review the CC&Rs and bylaws before purchasing the property, "but there's no need to hire one just for this purpose unless there is active litigation going on" at the community, says Jenson.

Another good idea is to request a copy of the HOA's meeting minutes for the last year, says Kast.

"In the minutes, you will learn about anticipated assessments and other issues that are not in the CC&Rs. If you know an assessment is coming, you can



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HOA before signing a contract. These include:

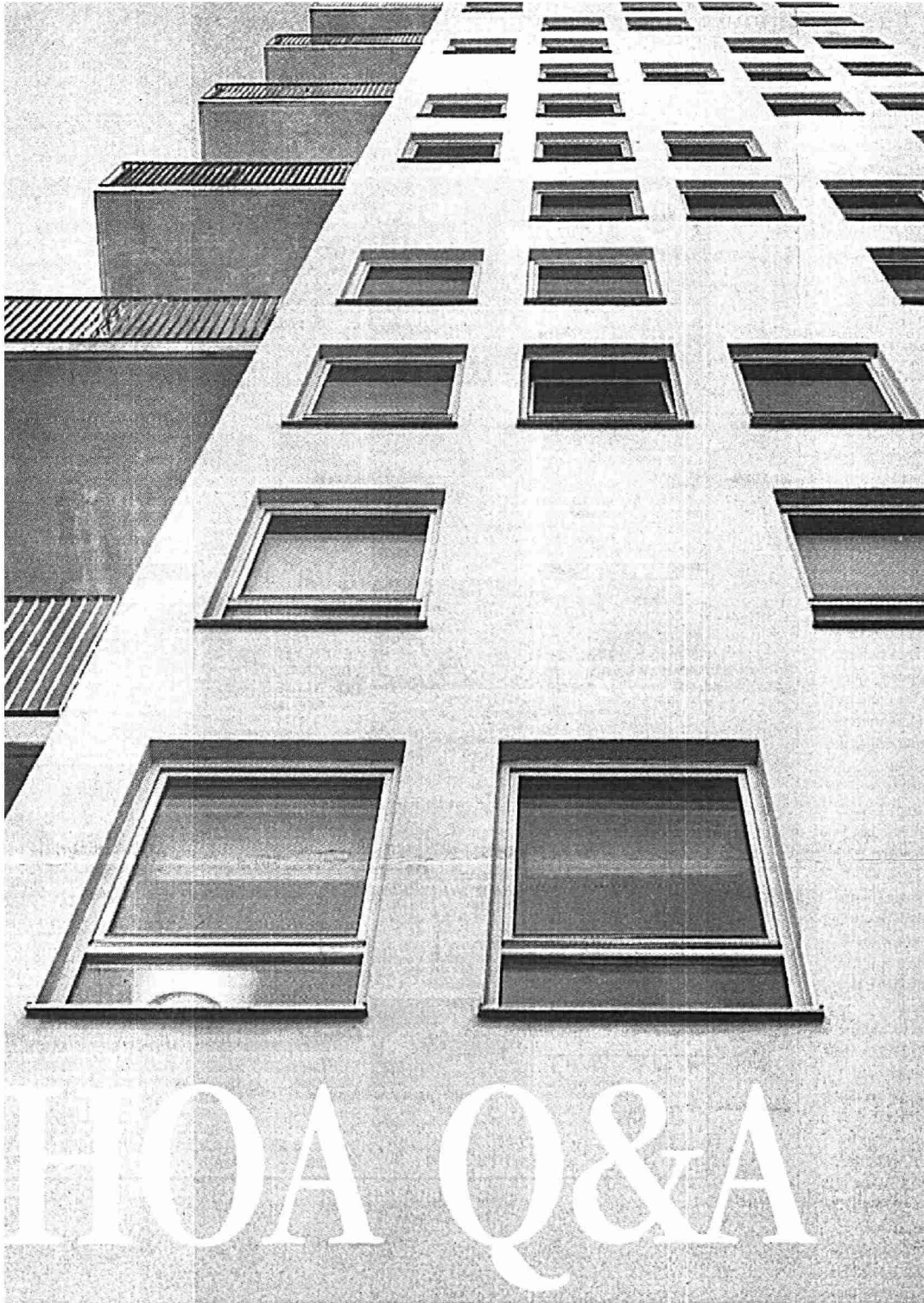
negotiate the selling price to cover that assessment.”

Kast says he also would recommend walking the streets of the association community on a weekend when people are likely to be outside their homes.

“I would ask them what it’s like living there and what the board is like. If you get a lot of negative feedback, I would consider another place to live.”

Additionally, “speak with residents in neighboring communities who may have heard rumors and may be more apt to discuss since their community’s home resale prospects won’t be affected,” Jenson says.

Lastly, try researching the HOA on the Internet, and try to attend a board meeting if you’re allowed, says Arnold.



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