

RENOVATION MANAGEMENT

for Aging CIDs

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Like fine wine, many of the improvements owned in common by common interest developments (CID) have grown better with age. Unfortunately, some townhomes, condominiums, cooperatives, and association properties have not aged quite so gracefully. The effects of Mother Nature, deferred maintenance, poor financial planning, and decades of occupancy have resulted in failing mechanical systems, worn roofs, cracked siding, shifting foundations, and underfunded reserves.

This lack of funding can be devastating for a CID. Often this condition occurs because year after year the volunteer board of directors has chosen not to increase monthly assessments. Although they are aware that expenses have increased, board members succumb to member pressure and opt to keep assessments low. As a result, boards often fail to address needed maintenance and repairs. After years of such neglect, more deteriora-

tion occurs, and the cost of repairs skyrocket. Members become frustrated with conditions, values begin to decline, and the CID begins to spiral out of control.

Faced with must-do repairs, CIDs increasingly are turning to professional managers for a solution. Tackling a major renovation and simultaneously boosting membership confidence is not an easy task, so professional assistance is valuable. In addition, it may take several years to put together a viable construction plan for members to vote on. During that period the membership of the board may change several times, so providing continuity through professional management is especially important.

When the board of directors discovers that the property needs repairs and that funds are not available in reserves, it must disclose this finding to the CID's membership. From the first notification of needed repairs until



There are approximately 42 million Americans living in common interest developments (CIDs) today, representing approximately 15 percent of all U.S. housing. CIDs are growing at a staggering rate. In the 1970s there were 10,000 CIDs, according to the Community Associations Institute; today there are a whopping 205,000.

the last nail is pounded, clear communications with members are key to keeping members updated on facts and costs. Each document should present the information in a positive light without obscuring any facts or costs. However, communications should not include construction costs until a construction budget has been prepared. Releasing inaccurate or incomplete cost estimates may cause ill will and a loss of confidence in management.

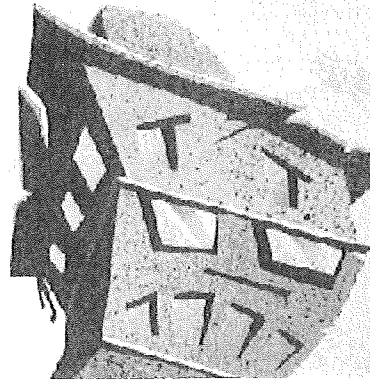
In addition to sending written communications, the board should consider holding a series of "town hall" meetings in informal settings so that members can ask questions well before they are asked to support the plan.

Investigating The Problem

Often, the problems with a property are all too obvious. Leaking roofs, peeling paint, uneven sidewalks, and deteriorating exterior surfaces are all indications that immediate actions may be needed. In other cases, termites, dry rot, power post beetles, or other external forces may not be so easily detected. Whatever the concerns, the board should be careful not to underestimate the extent of potential problems. One of the first critical steps the board must take is to engage the appropriate advisors to analyze the problem and make specific recommendations with comprehensive specifications of the contemplated work.

Depending on the scope of the work, advisors typically may include all or some of the following: structural, civil, or geo-technical engineers; architects; and construction managers, as well as specialists in roofing and asphalt, asbestos

Lack of renovation funding can be devastating.



abatement, and pest control. Identifying these individuals early will assure that the projects can move forward in a logical manner and with minimal disruption.

As bids are received, the board and its advisors should carefully evaluate them to ensure that they conform to all specifications and are truly comparable. Of course, with any bidding situation, care should be taken to check finalists' credit, client references, and insurance. This is also the optimum time to work with the final bidders to determine ways in which value engineering may potentially lower costs.

Budget Preparation

As bid finalists and costs are narrowed down, the manager and other key professionals should work with

the board to prepare a project construction budget. In addition to the contract itself, the project budget may need to include soft costs such as architect fees, construction management fees, and many more (see Figure 1). Contracts should also include guarantees of costs, work quality, and timeliness.

The property management services that will be required for a major renovation are not typically included in a management services contract (see Figure 2). The time and effort needed to help the CID will be significant, so a wise manager will negotiate fees in advance of attending meetings or performing any extra services.

Funding

Once the board of directors has agreed to a tentative budget for the proposed repair, it should consider how the repairs will be funded. If reserves are inadequate, a common alternative is to approve a special assessment to meet any reserve shortfall. It will be necessary to review the property's governing documents to ensure that the board has the authority to impose a special assessment or whether a majority vote of the members is required. It is a good idea to include the CID's attorney in this review. The board should involve its manager, attorney, and accountant in the preparation of a special assessment proposal for the membership. The board should not include dues for normal maintenance expenditures in the special assessment amount, as regular assessments will be required for ongoing and routine repairs.

In situations where the special assessment is going to be substantial,

the board of directors may be well advised to explore financing alternatives. Members without the cash reserves to pay for the special assessment may need to refinance or secure a home equity loan. The board could consider inviting potential lenders to a town hall meeting to explain different financing options to members.

In cases where members are not able to secure financing, the board could explore the option of obtaining a commercial loan with the board executing a loan agreement on behalf of the CID. Such a commercial loan typically starts as a line of credit to pay for actual construction for twelve months, and, during that time, the CID pays interest only on the monies borrowed. At the end of the twelve months, the balance due usually converts to a fixed-term loan. The CID's special assessment income stream can then fund the loan payments.

To protect the CID from possible member defaults, each loan participant should be required to sign an agreement securing the CID's loan against his or her property. The board should record these agreements so that future purchasers or lenders will be aware of the obligation. The board may wish to include a provision that the entire loan balance is due if the member chooses to refinance, sell, or transfer his or her interest in the property. The CID also should arrange to recalculate balances for members who pay down their loans in advance.

Not all members will participate in the commercial loan. Members who arrange for their own financing must make payments by a certain date, so it is only fair that those pay-

ing monthly toward the commercial loan balance begin making payments at the same time, even if the construction loan payout has not yet begun.

Plan Approval

At this point, all the planning is done. The professionals have completed their evaluation, and the scope of the work has been identified. The bids have been received and the budget has been prepared. Financing options have been explored. The members have been informed of the need for repairs. The board of directors is now prepared to make its formal presentation to the membership. At this meeting, the board seeks to gain majority support for the plan, which may require a vote.

The board should plan this important meeting well in advance and allow enough notice so that all members have the opportunity to attend. Each board member should be present.

The staging of the meeting is also crucial. Determine how the room will be set up and what exhibits and renderings will be displayed. Exhibits will be beneficial in explaining the needed repairs to the members. The board and the manager should be seated at the head table with any other professionals working on the project—lender, architect, etc.

The board and the construction management team should be well prepared before the meeting so that each individual will be ready to participate when called upon. It is a good idea for the board to make opening remarks that provide an overview of the issues. These

FIGURE 1: BUDGETING FOR SOFT COSTS

In developing a final budget for a construction or renovation, various soft costs may need to be included:

- architectural fees
- construction management fees
- structural engineering fees
- geo-technical fees
- asbestos or other environmental consultants
- dry rot and pest control contingency
- administrative costs for postage and copies
- legal and accounting fees
- landscape demolition and replacement
- permits and plan check fees
- property management fees
- unplanned homeowner defaults
- loan points

FIGURE 2: MANAGEMENT TASKS DURING CONSTRUCTION

- attending construction meetings
- acting as a conduit between the construction team and the board
- preparing construction notices to members
- handling increased phone and letter communication with members
- paying construction vendors and other accounting functions
- attending more meetings with the board, the construction team, and the members
- preparing bank loan documents and complying with lender requirements
- recording member payment agreements
- tracking homeowner payments

remarks should explain what was discovered, what alternative methods for repair have been researched, what value engineering has been done, what financial alternatives have been discussed, and lastly, how the budget was put together.

After they make opening comments, the board should turn the floor over to the architect, construction manager, lender, and attorney for brief presentations. Next, there should be a period for questions from members.

It is true that many directors have personal experience in some specific areas. However, this is not a place for the board to lead the discussions. If a board member should give misleading or inaccurate information, it could cause confusion and may lead

to challenges of the board's decisions to date. Questions are best left to the appropriate professional.

Lastly, do not be disappointed if the membership fails to pass the assessment on the first attempt. A common reason for failure is that not enough time was spent educating the members. It is also possible that the cost of the project exceeded the financial abilities of the members. The latter is most difficult to overcome. Votes should be counted immediately, and if the measure fails, the board should advise members that it will consider other options and schedule a second meeting when possible. Then the board can discuss options with the construction management team, reduce costs where appropriate, and modify

its presentation, then go back a second time.

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Ms. Burger has hands-on experience in all phases of property management and has continued to devote her time and energy throughout the years to grow professionally. She has served as president for two IREM chapters, the San Francisco Chapter and the Northern Nevada/Tahoe Chapter.