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Bob's Notebook

5 key ways to avoid buying a bad condo

Renter population, homeowner dues become key issues

Whether you are a first-time home buyer, or a retiree planning to "down-size" your residence, condominiums are "hot" during the 2006 peak home-buying season. In most communities, condos are still affordable for home buyers.

Condominiums are no longer the "ugly ducklings" of real estate. Now they appreciate in market value almost as fast as single-family houses.

As a longtime condo owner, I've witnessed their ups and downs in both popularity and desirability. Most condo owners are very satisfied. However, some condo complexes are poorly managed. Others have high monthly fees with sub-standard maintenance quality.

Worst of all, some condo complexes have become occupied mostly by renters, rather than owner-occupants, where there is little pride of ownership.

Buying a condo is not as simple as buying a house. However, if you know the right questions to ask, buying a condominium can be a profitable experience.

WHY BUY A CONDO INSTEAD OF A HOUSE?

In addition to the affordability of condos, the primary reason many condo buyers purchase is lack of maintenance concern. Condo owners don't worry about repairs outside their condo units because that is the responsibility of the condo homeowner's association.

Legally, a condo purchase involves very expensive air. Known as a "vertical subdivision," each condo owner purchases the airspace to the inner walls, ceiling, and floor surfaces of a specific residence unit.

The building structure such as the walls, foundation, elevators, parking area, and roof, including outdoor grounds areas, is known as a "common area," which is owned by, and the maintenance responsibility of, the homeowner's association, which is owned

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In addition to affordability issues, the majority of condo buyers purchase for lifestyle reasons, such as recreational facilities, freedom from exterior maintenance, ability to lock the door and be away for extended periods, and enjoyment of luxury facilities at modest cost.

NEW OR RESALE CONDO -- WHICH IS BEST?

Being the current owner of a second-home condominium, and having owned several previous condos, I am quite familiar with the many pros and cons of new and resale condominiums.

Owners of older resale condos usually have greater predictability of maintenance expenses and monthly fees because the construction defects of new units have been repaired.

However, older condo associations often have gradually increasing maintenance costs as the property ages. But a well-managed condo association will budget for such expenses and set aside adequate reserves so special assessments won't be necessary.

Buyers of brand-new condominiums usually enjoy the latest up-to-date facilities and amenities. However, construction defects are a frequent problem unless the builder takes care of them without trying to dodge legal liability. For example, reportedly over 80 percent of California condo homeowner associations have sued their builder for construction defects.

Lawsuits by a condo association against its builder, or involving any other defendant, can greatly hurt the resale of condos in that complex. Mortgage lenders often refuse to make loans to buyers where there is any litigation involving the condo association.

Another unexpected problem with brand-new condos is the developer often sets the monthly maintenance fees too low to adequately fund reserves for repairs. After all the units are sold, the unpleasant result is the homeowner's association has to raise monthly fee assessments to provide sufficient funds for expenses and replacement reserves.

THE FIVE KEY QUESTIONS CONDO BUYERS SHOULD ASK

To avoid buying a "bad condo," whether it is brand-new or a resale unit, smart condo buyers ask at least these five key questions:

1.) HOW DO THE MONTHLY CONDO FEES COMPARE WITH COMPETITIVE NEARBY CONDO COMPLEXES?

Smart prospective condo buyers first ask, "What is included in the monthly assessment fee?" and then compare it with the fees charged at nearby competitive condo complexes.

However, be sure to compare apples with apples. To illustrate, the condo that I own includes winter heat in the monthly fee, but not summer air conditioning. Similar nearby condos include these major expenses, but some include neither because their condo units have individual heat and cooling units.

Closely related is the issue of adequate replacement reserves. Wise condo buyers carefully review the latest financial reports of the condo homeowner's association. If it is an older complex, the reserves should be relatively high per unit to provide for unexpected repairs. However, newer complexes usually don't need high maintenance reserves.

2.) WHAT IS THE FINANCIAL CONDITION OF THE HOMEOWNER'S ASSOCIATION? ARE THERE ANY EXPECTED SPECIAL ASSESSMENTS?

Before purchase, condo buyers must be given a copy of the CC&Rs (conditions, covenants, and restrictions), by-laws, rules, and latest financial reports of the homeowner's association. In addition, smart buyers ask for and read the board of director's minutes for the last six meetings.

A key question prospective buyers should ask is, "Are any special assessments under discussion or planned?"

For example, I recently had lunch with a very successful real estate broker who told me about a condo he recently sold for an elderly seller. He explained that only after the sale was almost ready to close, it was discovered the condo owner's association planned to levy a \$20,000 special assessment on each owner to pay for deferred maintenance.

There is no specific maintenance reserve guideline. But two general rules are a) \$2,000 to \$3,000 per unit, and b) 25 percent of the annual gross income of the association should be in the reserve account.

3.) IS THE CONDO ASSOCIATION PROFESSIONALLY MANAGED?

Except for very small condo associations up to six units, every condo association needs a professional property manager. Prospective buyers should be wary of buying a condo in a complex that is self-managed, often by the owners or directors living in the property.

A related question is, "How long has the complex been managed by the same company?" The longer the better. The condo association where I own my condo has had the same professional management firm for 30 years. The property manager assigned to our property has managed our property over 20 years. Needless to say, we are very satisfied.

Professional managers usually "earn" their fees from expense savings. For example, our insurance policy recently came up for renewal. The professional manager shopped among many insurers. Since he also manages other condo complexes, he controls lots of potential business for insurers. Not only did he negotiate a big reduction in our premiums with the same coverage, but he also got the insurer to lock-in the same rate for up to three years, and we are free to shop among other insurers at each annual renewal.

4.) WHAT IS THE PERCENTAGE OF RENTERS IN THE CONDO COMPLEX?

If the answer is more than 10 percent, buyers should be cautious. If there are more than 20 to 30 percent renters, that's a very bad sign because mortgage lenders will either refuse to make loans in that complex or they will charge higher interest rates. Too many renters can hurt future condo sales.

A key reason to avoid condo complexes with more than a few renters is absentee owners often don't care about maintenance of the property. The result can be declining quality of maintenance. Complexes with anti-renter rules are considered very desirable and often bring premium resale prices.

5.) ASK SEVERAL CURRENT RESIDENTS, "WHAT DO YOU LIKE BEST AND LEAST ABOUT LIVING HERE?"

A closely related question to ask is, "Would you buy a condo here again?"

Most condo owner-occupants are very friendly and willing to share their good and bad experiences. While you are asking questions, don't hesitate to inquire, "How is the soundproofing here?" Poor soundproofing between condo units, upstairs and downstairs, as well as adjacent, is the number one complaint of condo owners.

Lastly, when making a condo purchase offer, be certain it contains a contingency clause for a professional property inspection. After the condo seller accepts your

offer, be sure to accompany your professional inspector to determine if there are any undisclosed defects in the unit or the complex that might cause you to reject the inspection report.

More details are in my special report, "The 10 Key Questions Condo Sellers Hope Buyers Don't Ask," available for \$5 from Robert Bruss, 251 Park Road, Burlingame, CA 94010 or by credit card at 1-800-736-1736 or instant Internet delivery at www.BobBruss.com.

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