

Five key questions to ask before buying a condo

Financial situation of homeowner's association a top concern

The National Association of Realtors recently reported condominiums sales set new records in 2003 for the number of condos sold, the median sales price, and the annual appreciation in market value. Condos are no longer the "ugly ducklings" of residential real estate, which lagged behind single-family house sales statistics.

For many buyers, a condo purchase is the first step to eventually buying a single-family house. But other condo buyers purchase because they want to downsize from a large house to a more modest condo home or townhouse where the exterior and common area maintenance is handled by the homeowner's association.

Still others buy condos because of the lifestyle, which often includes amenities such as swimming pool, fitness center, tennis courts and social programs.

WHAT IS A CONDOMINIUM? Legally, a condo is a "vertical subdivision," which includes ownership of airspace to the inner walls, ceiling and floor surfaces of a residence unit. The building structure and the land are common areas owned by the homeowner's association, to which all condo owners in the complex automatically belong.

The condo homeowner's association is responsible for maintaining the "common areas," such as the building, hallways, elevators, grounds, parking areas, plumbing, wiring and virtually everything except a condo owner's individual airspace.

To illustrate, last Sunday evening as I entered the large underground garage at my second-home condo, I noticed water dripping from a water pipe onto the garage floor. It didn't look serious so I figured why bother to contact the caretaker who probably already knew about it. Monday morning a plumber repaired the leaking pipe.

I don't know how much that repair cost, perhaps \$200 or so, but divided among the 63 condo owners in our complex, the cost per unit was only a few dollars.

Another example: Last summer our elevator required \$23,000 of major repairs. Other than the inconvenience while it was out of service, as a condo owner I had no worry about hiring the elevator repair company because that was the responsibility of the homeowner's association. More important, our professional condo management firm handled all the repair supervision details, such as obtaining repair bids to get the lowest price and best quality work.

One of the major joys of owning a condominium is not worrying about maintenance of the common areas. Of course, the condo association members and the directors try to keep monthly assessments as low as possible by careful management while maintaining adequate replacement reserves.

IS A BRAND-NEW OR A RESALE CONDO BEST? New condos appeal to the widest potential market of condo buyers. However, a potential disadvantage which most buyers of new condos don't anticipate is many new condos have construction defects, which often result in condo homeowner association lawsuits against the general contractor and developer.

When a condo homeowner's association is involved in a lawsuit, the adverse result is mortgage lenders often stop lending in a complex with pending litigation.

Another unexpected problem with new condo complexes is the developer frequently sets the initial monthly condo fees artificially low to attract buyers.

After the management of the complex is turned over by the developer to the homeowner's association, the directors often realize the inadequate fees which can only be remedied by an increase in the monthly fee assessments on the condo owners.

However, buyers of older condos can be relatively certain that any construction defect problems were resolved long ago. The result is usually a stable, predictable monthly condo maintenance fee. But a drawback of older condo complexes is the maintenance costs usually increase as the structure ages.

ASK LOTS OF QUESTIONS. If you are considering buying a new or resale condo, you can't ask too many questions. Here is a checklist of key questions to ask:

1—IS THE CONDO ASSOCIATION PROFESSIONALLY MANAGED? The answer should be "yes." Unless you are buying a brand new condo and a professional manager has not yet been hired, ask how long the professional manager has managed the complex. The longer, the better, is a good sign. Be wary of any condo complex without professional management.

For example, the condo complex where I own a second-home unit has had the same management company for over 25 years. The father turned his firm over to his son several years ago and we are very satisfied.

Professional managers usually save the association the amount of their fees by obtaining low bids on quality services and by offering expert advice based on experience managing other condo complexes.

2—HOW DO THE MONTHLY CONDO FEES COMPARE WITH SIMILAR NEARBY CONDO COMPLEXES? If you are working with a savvy buyer's agent, he or she can readily give you a comparison of condo fees.

Be sure to ask what services are included in the fees because that can make a big difference. To illustrate, if heat and air conditioning are included, expect a higher monthly condo fee than if each condo owner pays for all individual utilities.

3—WHAT IS THE FINANCIAL CONDITION OF THE HOMEOWNER'S ASSOCIATION? Prospective condo buyers should be given current financial statements and the board of director's minutes for the last six months, plus copies of the by-laws, rules, and CC&Rs (covenants, conditions and restrictions) before purchase. Obtaining these important documents should be a condition in the buyer's condo purchase offer.

Ask lots of questions, such as "Are any special assessments or increases in the monthly fees under discussion?" Pay special attention to the adequacy of the replacement reserves for unexpected emergencies, such as roof replacement.

For example, the condo complex where I own a unit has a policy of increasing the monthly assessment fee 5 percent per year, primarily to increase our replacement reserves. This policy was approved by the owners several years ago and has worked very well to pay expenses and

increase reserves as the property ages.

There is no absolute minimum replacement reserve guideline, but two standards are (a) at least two to three thousand dollars per condo unit, and (b) 25 percent of the annual gross income for the homeowner's association should be in the reserve account.

4—ARE THERE ANY SPECIAL CONTRACTS OR LEASES, OR UNUSUAL RULES AFFECTING THE CONDO OWNERS? This information should be in the printed CC&Rs, by-laws, and rules. But it's often easier to just ask about unusual situations.

To illustrate, some developers own and lease the recreation area or parking area to the homeowner's association, often at annual increasing rents.

For example, where I own a condo there is a no-pet rule, and there are severe restrictions discouraging rentals. Out of 63 units, we now have only one rental. That's very good.

When there are less than 75 percent owner-occupied units, most mortgage lenders either refuse to make new loans or charge a high interest rate. This result obviously hurts condo resales. The primary reasons lenders dislike renters are the foreclosure rate is higher on rental condos and the maintenance quality usually declines when there are too many renters.

5—ASK CURRENT RESIDENTS "WHAT DO YOU LIKE BEST AND LEAST ABOUT LIVING HERE?" Most condo residents are very friendly. They don't mind prospective buyers asking what they like best and least about their condo. Better yet, ask several current condo owners "Would you buy here again?"

Lastly, be sure your condo or townhouse purchase contract contains a professional inspection contingency. That means, after the condo seller accepts your offer, you have 10 to 15 days to obtain a professional inspection of the specific condo and the visible common areas.

If you are buying a brand-new condo, be wary of any builder or developer who refuses to allow a professional inspection.

Maybe the builder is concealing defects that would be obvious to an expert inspector. Or perhaps the city building inspector missed a serious construction mistake. Whether you are buying a new or resale condo, including a professional inspection contingency is money well spent.

CONCLUSION. Buying a condominium or townhouse is not a simple home purchase because of the additional considerations. But it can be a very rewarding experience if you ask the right questions and receive the right answers.