

To HOA, or not to HOA?

As our team's Buyer Specialist, I field a lot of questions about Homeowners Associations. "Are they actually helpful?" "Aren't HOAs super restrictive with what I can do?" "Why are they so much per month?"

There aren't black and white answers for these questions, but as someone who has researched a vast number of associations for my clients, I'd like to outline what Homeowners Associations aim to be, and you can decide for yourself whether belonging to one could be a good fit for you or not. Read on . . .

What are the benefits of a well-run association?

Simply put, a well-run association will foster a sense of community amongst homeowners and will provide support they might not otherwise have in complexes or subdivisions without governance, all while maintaining property values.

HOAs have governing documents, which I'll discuss in more detail below, that ensure your complex/neighborhood looks good and is well-maintained throughout. Common areas stay nicely manicured & amenities are taken care of. Buying a property in a managed community means mandatory membership- you can't opt out. So, in neighborhoods with single family residences or duplexes/townhouses, fellow homeowners are held to a high standard of exterior maintenance, which contributes to maintaining property values. In condo complexes, the HOA itself maintains the exterior of the building, and homeowners themselves are held responsible for following the rules governing what they can or cannot do to their exteriors (like, no kayak storage on balconies, or big signs in their windows).

And, while I know you'd *never* have an argument with a neighbor about tree limbs or fences, there are steps for mediation when things do go south. The governing documents outline rules to adhere to when property issues arise, and the Board Members provide support in sticking to them.

Many HOAs are also known for hosting events in their community, from trash-pickup days and other volunteer work, to annual outdoor BBQs so neighbors can get to know one another.

Where do HOA dues go each month?

This will truly vary from HOA to HOA. Condos often have more included in dues than single family homes/duplexes/townhouses. An “all-inclusive” condo association’s dues will go to Cable Tv, Clubhouse Membership, Common Area Maintenance, Common Taxes, Electric, Gas, Heat, Complex Insurance, Internet / Wi-Fi, Professional Management, Snow Removal, Trash Pickup, and Water / Sewer. Separately, that would be a *lot* of bill payments, wouldn’t it? When all of these services are bundled together, homeowners actually receive a discount versus if they were paying for each service out of pocket. In neighborhoods with single family homes/duplexes/townhouses, HOA dues often only go to a few things like Common Area Maintenance (if any), Complex insurance, and Trash/Snow Removal, and there is often still benefit in bundling those costs. Now, most of us who are homeowners do pay for all services separately in communities without Associations and have no issue in doing so. However, wouldn’t it be *nice* to have someone else do it for you?

Many condo associations and a select few subdivisions also have a professional, on-site or contracted, that performs periodic property checks throughout the year. They ensure the home is in the condition expected and that no issues have arisen, like pipes breaking in the winter or the stove being left on. This provides owners with peace of mind knowing that when they aren’t at their property, everything is safe and sound and secure. That is especially important in our market here in the mountains where many of our owners have second homes they don’t occupy year round.

All items above are considered “Operating Expenses”, and while a large portion goes to operation and daily maintenance, most HOAs also have funds set aside each month in “Reserve Accounts”.

What are “Reserves” and “Special Assessments”?

Reserve accounts hold money set aside by an HOA as a safety net to cover emergency costs, repairs, or significant capital improvements. Many associations have Reserve Studies done to analyze their current financial health and where they could improve to mitigate future financial emergencies. The reserve study report presents a prioritized schedule of capital projects and a reserve funding plan including a projected reserve fund cash flow over the next 30-years.

An important note: For those obtaining a conventional loan for a purchase in a condo complex with an HOA, Fannie and Freddie require that at least 10% of an association’s dues each month go toward Reserves. Keep in mind, HOAs are not required to have funds in reserves. So, when you are considering

purchasing in a community with an HOA, it is important to check their financial health, including the current budget as well as how they're performing on building their reserves. A good rule of thumb is that if an HOA is 70-80% funded per their reserve study, they are likely in great health and at low risk of a special assessment.

If an HOA has historically saved really well and only used reserve funds to make capital improvements and large repairs, they will continue to do so. On the contrary, if they haven't built reserves in the past and have instead charged "Special Assessment" fees to homeowners when big projects come up, this will likely continue to be the norm. Neither is wrong, it just depends on your viewpoint and when you'd like to spend your money.

Say the roof on your building needs to be replaced- would you rather have been charged an extra \$100 a month over time, or pay \$7,000 all at once (or, when allowed, in installments) for your share of the "Special Assessment" for the roof? This is the difference between your dues contributing to reserves, or paying a special assessment.

What are Governing Documents?

An association's governing documents contain the rules, regulations, and all other contractual terms that members are bound by as soon as they close on their home. Per the Colorado Contract to Buy & Sell, we obtain all of the following documents *that exist* for your review when we go under contract:

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|---|--|--|
| ☐ Declarations | ☐ Articles of Incorporation | ☐ Bylaws |
| ☐ Articles of Organization | ☐ Operating Agreements | ☐ Rules & Regulations |
| ☐ Party Wall Agreements | ☐ Responsible Governance Policies | ☐ Assessments |
| ☐ Meeting Minutes | ☐ Insurance Policies | ☐ Financials |
| ☐ Construction Defect Action (<i>not common</i>) | | |

The Articles of Incorporation & Organization, Responsible Governance Policies and Bylaws establish the HOA as an organization and outline how it is run and the rights and responsibilities of the organization.

The Declarations, Rules and Regulations (also known as CC&Rs) and Party Wall Agreements establish what you can do, and how you can do it. When I'm asked questions like "Can I fence in my backyard?", "What if my neighbor paints their house lime green?", or "What happens if my neighbor smashes a hole through our shared wall?", the answers are in these documents! Condo complexes and subdivisions alike utilize governing documents.

Study the financials. While they outline reserves, discussed in detail above, the operating expense breakdown is also here, as well as amount of money in operating accounts. This will give you a feel into the financial health of the HOA.

Finally, read the Meeting Minutes (Notes). Get a feel for how the HOA Board operates and conducts meetings, what they discuss, what issues come up and how they're resolved. The minutes allow you an opportunity to get to know the board members before you ever meet with them. The governing documents may not be light reading, but are so important to understanding your rights as a homeowner and to make sure you agree with the terms of being an HOA member.

So- to HOA, or not to HOA?

At the end of the day, you decide whether or not to purchase a property within a Homeowners Association, and one size definitely does not fit all. I would love to answer any questions you might have beyond what I touched on today. Check out my contact information below- I can't wait to hear from you!



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