

# BARRIERS TO BUYING HURTS COMMUNITY ASSOCIATION'S VALUE



buyer still qualifies with an exact same expense ratio (divide the Total Monthly Payment by the Buyers Monthly Income). Or, the \$25 per month could be a barrier and can prevent the buyer from purchasing the home.

The third column shows a \$17,600 increase in the offer price for the home if the Board lowered the monthly assessment \$100 per month. You may be thinking, "That is just one home, so how does it affect mine?" It affects all of the homes in the association because the most recent homes sold are used for comparables against the homes actively for sale. In this market, appraisers only go back 90 days to get comparables

(per a letter from HUD), or they adjust downward for time.

Some Board policies are more obvious. Senior citizen communities (55+) kill the value of their homes simply by eliminating about two thirds of the demand for housing. In a free enterprise economy, reducing demand by 2/3s and holding supply constant can reduce the value about 2/3s.

Another policy is the refusal to allow owners to rent their units out. It is generally believed that if there are too many tenants, the complex will not be maintained properly. However, if only owners can sit on the Board, and the exterior maintenance is done by a third party, then how do tenants affect the condition of the complex? Recently, I was writing an offer on a townhouse condo until I pointed out this policy to the buyer and the deal was off. One of my sellers got married and moved in with her

husband. She was upside down in her condo and she could not sell it. She might have held it long term but she could not rent it because of the Board's policy, so it went into foreclosure.

Some community Association's demand the buyer pay 6 months or a year's assessment in advance. Buyers don't save money to buy a new home planning to pay "assessments in advance." Even if they do have the extra expense it is often not readily available because it is tied up in other assets like 401Ks. The buyer snubs their nose at the complex and looks elsewhere. One Realtor I met was dumbfounded by the Board's insistence that the buyer pay in advance of closing even when the buyer proved they would and could pay it right after closing. The buyer's money was tied up in a pre-mature CD. The interest penalty was too much for the buyer to accept, not the Association's advance payment of assessments.

Some community Associations have an arduous application process with interviews and such. With the exception of a criminal history or being a State recognized 55+ community, I can't think of anything else a Board can say "no" to. Everything else may land the association in civil court on discrimination charges.

There are many other rules that cause a buyer to walk away without making an offer. Many Associations are in financial stress from foreclosures not paying their share of assessments. They are stressed from changes in State laws, like the 2004 laws that forbid filing liens (or foreclosing) on fines for violations. Add to that, a real estate market flooded with cheap foreclosure homes, and home buyers have the "kid in the candy store" syndrome. A buyer will walk away from an offer at the slightest problem thrown in the way.

**S**ince almost all community association Board members are ordinary home owners, most are not aware that the rules the Board passes can have an impact on the value of the individual homes in that association. Sometimes the Board's thinking is actually backwards in that they believe they are preserving value when they are actually hurting values. Sometimes the policy exists to implement a hidden agenda. Sometimes things are outside the control of the Board of Directors.

Take for example the State's new law mandating that all condo owners buy insurance. It sounds harmless enough and seems fairly reasonable at \$25 per month (Quote courtesy of Citizens Property Ins. Corp., Feb. 10, 2009, on a 3/2 condo).

However, look at column 2 in the chart below. With "all else being equal", if we remove the \$25, we can raise the offer price by \$4,400 and the

## QUALIFYING TO BUY A CONDO IN YOUR ASSOCIATION

Total Exp. Ratio To Qualify:	43.005%	43.005%	43.004%
Buyer's Monthly Income:	\$ 4,052	\$ 4,052	\$ 4,052
Interest Rate:	5.50%	5.50%	5.50%
Offer Price:	\$ 200,000	\$ 204,400	\$ 217,600
Principle & Interest:	\$ 1,135.58	\$ 1,160.56	\$ 1,235.51
Taxes:	\$ 352.00	\$ 352.00	\$ 352.00
Hazard Insurance:	\$ 25.00	\$ -	\$ 25.00
Condo Association Fee:	\$ 230.00	\$ 230.00	\$ 130.00
Total Monthly Payment:	\$ 1,742.58	\$ 1,742.56	\$ 1,742.51

Associations can help themselves by re-examining their policies and make them more buyer friendly. Associations can help themselves by eliminating complacency in themselves and their management company. Why sit around hoping for assistance from Federal and State when you can help yourselves? With so few buyers these last two years, every buyer is precious to values, so why are we building and maintaining barriers to buying? (Copyright 2009, Eddie Velie, Owner & CEO of Velie Association Management, LLC)