

Doron F. Eghbali Residential Real Estate

What You Should Know Before Purchasing Your Condo

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In this challenging real estate environment, it is hard to secure financing for a real estate property. As such, it behooves us to ascertain what we are acquiring to eschew any other unnecessary costs once we obtain the property. Especially, for condominiums, there are some important questions we should ask of ourselves before purchasing the condominium. Let us explore these questions.

1. WHAT ARE OTHER CONDOMINIUM OWNERS SAYING ABOUT THE BUILDING?

Probably, one of the most important inquiries we should make is to look into minutes from condo association board meeting. Understanding what other homeowners are complaining about the building gives us a better understanding as to the dynamics of the association and its members. In particular, we could discover:

- How well the association is taking care of the building.
- How well the association is responsive to legitimate concerns or suggestions. And,
- How well the association or the seller is entirely truthful to us about upcoming projects we might have to shoulder as the owner.

2. WHAT ARE EXCLUSIONS TO THE INSURANCE?

Probably, you want to know whether you are covered if a problem arises and for what items you need to obtain your own insurance. Specifically, you should obtain a copy of the association's certificate of insurance. In the certificate, you should look for the following:

- See if the replacement costs are an accurate estimate of cost of rebuilding.
- See if the policy includes building-ordinance clause. This is a clause that covers the costs of bringing building in conformity with building code. This is especially important in old buildings where updates have to be done relatively frequently to keep the building in conformity with the code.
- See if your personal belongings are insured. Usually, they are not. Accordingly, this is your duty to obtain insurance for your personal items in the condo.
- See, most importantly, what the exclusions are. Exclusions could be to some extent spelled out. To the extent you or your agent intelligently can, understand them and know what you are getting into.

3. WHAT ARE THE ASSOCIATION'S LEGAL AND NON-LEGAL CHALLENGES?

Probably, the other important consideration is to know whether the association is having or about to have legal or non-legal problems.

a) LEGAL PROBLEMS

- It is incumbent on new owners to have their attorneys run a check on the association and find out if the association is in the midst of litigation and what kind of lawsuits the association has had to deal with over the years.
- It is also important to discover from the Board if the association, with their best knowledge, contemplates any lawsuit in the foreseeable future.
- It is incumbent on new owners, similarly, to find out who pays for such lawsuits, whether the association's insurance covers such costs and whether any special assessments are imminent.

b) NON-LEGAL PROBLEMS

Most probably, the salient question is whether the association is soundly funded. You should see the books. The formula used for soundness of the reserve fund, developed by the author of *The 99 Best Residential & Recreational Communities in America*, is as follows:

- If the complex is one to 10 years old, the reserve fund should have 10% of the cost of replaceable items such as: roofs, roads, tennis courts, etc.
- If the complex is between 10 to 50 years, the reserve fund should be between 25%-30% of such replaceable items.
- If the complex is 20 years or above, then the reserve fund should be 50% or above such replaceable items.

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