

**THINKING
OF
BUYING
A CONDO?**

**Find out if
it's the right
choice for
you!**

**Special Report Presented
by**

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THINKING OF BUYING A CONDO?

Find out if it's the right choice for you!

Condos have become an increasingly attractive home ownership option for singles, young couples, families and retired couples (that's just about everybody!). A condo is a viable option for anyone who wants to own a home without the worry of repairs, maintenance and dreaded chores like snow shoveling,

What exactly is a condo?

Condominiums come in various shapes and sizes from two or three story buildings to luxury high-rises. Some complexes are built close to shopping and schools, some close to resort areas, golf courses and other leisure facilities. All condos are typically high-density housing constructed as Common Interest Developments (CIDs). When you purchase a condo, you are actually purchasing your individual unit, the space inside your walls, and entering into a joint ownership agreement and joint responsibility, with other owners, for the common areas.

In short - you own everything in your unit and you are a shareholder in the remainder of the building, grounds and other facilities. As a shareholder you are a member of the CID's Homeowners Association (HOA), which is responsible for the upkeep and care of the building(s) and grounds.

Community living – Is it for you?

Keep in mind that on top of your mortgage payments you will pay a monthly fee to the HOA for maintenance of the common property. Monthly fees are determined by the condominium complex's master deed, which outlines the percentage of ownership each unit in the development has invested in the entire complex. HOA fees can range from less than a hundred to several hundred dollars a month and generally cover standard maintenance and repairs, water and sewer charges, insurance, garbage pickups, snow removal, grounds and pool maintenance, etc. Some fees cover utilities including electricity, 24-hour security and other amenities. They also provide a reserve for improvements and repairs such as roof replacements and major renovations.

Being a condo owner essentially makes you a business partner in a multi-million dollar real estate development partnership with a group of strangers. Decisions governing the development of condominium complexes and their budgets are determined according to a set of rules, regulations and operating guidelines not unlike those used to regulate businesses. Many condominium homeowners associations hire professional management companies.

Anyone contemplating condo ownership is well advised to have both a real estate agent and a lawyer to review the ownership agreement as well as the financial statements and operating principles and procedures of the Home Owners Association, and to find out what is expected of the individual owners (that would be you).

Rules? What rules?

Just as city by-laws apply to owners of single-family homes, the association's covenants, conditions and restrictions (CC&Rs) bind condominium owners. These legal documents

cover everything from special assessments and the election of the officers of the association to the allocation of parking spaces and the use of recreational facilities. The association has the power to fine owners who fail to follow the rules. Most associations have the power to attach a lien to an owner's property if the fines or assessments are not paid.

Condo living requires a commitment on your behalf to act as part of the community, respecting the needs and rights of neighbors at close quarters. You must be prepared to follow the rules of the association regarding children, pets, noise, balcony and window decorations, hours of operation for recreational facilities and use of facilities for private parties. Basically there are rules for anything that impacts on other residents. Mutual respect and consideration for neighbors is the underlying principle of condo life.

Participation can be fun - If you want power, you'll have to work for it!

As a condo owner and a member of the Homeowner's Association (HOA) you have the right to participate in making all decisions regarding the common property. Unlike the owners of single-family homes, condo owners must come to an agreement, by consensus or voting, on issues concerning maintenance and repairs. Condo owners (as the HOA) decide together when a roof or security gate or water heater should be repaired or replaced. They decide what to spend on landscaping and who to hire to do the work. They decide if and when to levy special assessments on members for emergency repairs or extra services.

If you like to participate with your peers in this type of decision-making then condo living could be a good choice for you. To a greater or lesser degree condo owners are expected to take their turns at serving on the board of directors, joining special committees, getting estimates for repairs or taking on other projects that benefit the whole community.

Insurance – Who is responsible for what?

The HOA is responsible for insurance on the building and the grounds. You are responsible for insurance on your unit. Condo unit owners insurance is available to a condo owner who belongs to an association that purchases blanket coverage on the structure. It is best for the association and unit owners to have the same insurance carrier so as to avoid gaps in coverage.

There are several key coverages that a unit owner should have:

- Building property – covers the unit features that are the responsibility of the unit owner including wallpaper, flooring, fixtures, unit alterations and additions.
- Personal property – clothing, furniture and the like, which should be insured for replacement cost, not depreciated cost
- Loss of Use – covers certain expenses if a condo is damaged and uninhabitable
- Additional living expense – covers expenses over and above what the insured would normally have spent on food, shelter and related items for the shortest time required to repair or replace your unit or to relocate for a certain period of time.
- Loss Assessment – pays the insured's share of a special assessment required if the association has an insured loss, which the insurance does not cover.

- Personal Liability – pays the insured’s legal liability for financial damages which result from an individual being injured in the unit, and pays for legal defense against any claims or suits
- Medical payments to others – pays necessary medical expenses for guests who are injured.
- Landlord insurance – required if the condo is rented

When purchasing condo insurance, provide your insurance agent with the governing documents and the association’s insurance policy, which define the insurance responsibilities of the association and the unit owner.

Do you have title insurance on a condominium?

Title insurance is available on a condo and is recommended to protect your interests. A title search will be done when you are purchasing your condo, which will reveal any defects in the title of the unit, as well as any problems or liens against the condominium building or the complex itself. You will receive a deed to your own unit plus an undivided interest in the common areas.

The title report should be studied carefully to ensure that you couldn’t be held liable for any unpaid bills or liens against the HOA. Your escrow or closing agent will be able to advise you on the correct procedure to deal with any problems that arise from the title report. The Covenants, Conditions and Restrictions of the condominium are normally incorporated in the deed. These must be read carefully because they spell out the conditions that bind each unit owner.

Advantages of condo ownership.

- A condo is comparatively cheaper and easier to maintain than a single family home.
- Through the HOA all the time-consuming chores related to home maintenance are taken care of for you.
- A condo provides your family with access to tennis courts, fitness equipment, pool and other facilities that you might not be able to afford on your own.
- Another factor to consider - many people who buy a condo as a starter home and later move on to a house decide to keep the condo as an investment and rental property.

What should you know about a condo community before you make your decision?

Make sure that the condo you are interested in is suitable for you. Learn as much as you can about the rules and regulations. Condos are concentrated communities where your neighbors are actually co-owners and have a stake equal to yours in everything that affects the property. Many condos take on the particular character of their residents – one may be suitable for young professionals, another a retirement community, yet another for young families.

While you have a professional check the financial health of the HOA, you should talk to other residents, find out how the HOA operates and what is expected of you. Some condos depend heavily on members’ participation, while others rely on professional

management companies. If this is going to be your home you owe it to yourself to find out if it's a good fit for you and your family.

Condos as investment properties – Are they a reliable investment?

Condos are generally considered to be a more stable real estate investment than other housing options. In an article entitled "Going Condo: The Prime Real Estate Investment of 2001" which appeared in the December 2001 issue of the National Association of Realtors (NAR)'s Real Estate Outlook magazine, NAR research economist Kevin J. Thorpe stated: "due to the lower cost, lower risk nature of the condominium market, condos are far more insulated from economic declines than most other markets".

Research shows that there is an excellent market for re-selling condos. According to figures supplied by the NAR, sales of existing condos and cooperatives set a sixth consecutive annual record in 2001, reaching their highest quarterly level ever in the third quarter. Thorpe also says "Favorable demographics paint a nice long-term picture... The echo boomers represent the next big wave of potential home owners... as baby-boomers and the parents of baby-boomers get older, their predilection may shift to lower maintenance homes, adding another source of demand for condominiums."

When considering the purchase of a condo as a rental property, make sure that you check the Condo rules and regulations. Condos have rules that will affect you. Some permit changes of tenants only once a year. Some require a certain percentage of owner-occupants. Some require that re-sale can only be to an owner-occupant.

If you purchase a condo as a rental property you should carefully check the HOA's reserve fund and plans for future expenditures because the rent that you collect will have to cover not only mortgage payments and monthly fees but also any extraordinary levies that may be imposed.

How to pick a winner - What to look for in HOA and management performance.

Read the fine print. As a potential buyer you should be provided with all the legal documents of the association including minutes of meetings of the HOA. Don't hesitate to ask your lawyer and/or real estate agent review these documents for you. You also have the right to examine the HOA's operating budget and other records related to its financial decision and performance, you should have these documents reviewed by your lawyer.

Don't buy a pig in a poke! If you are concerned about large assessments being levied shortly after you move in you can check out that possibility and make an educated guess if you know what you are looking for. Basically, if an HOA has less than 30 percent of the reserves it needs there is a strong likelihood that it will require either a special assessment or the deferral of maintenance, a loan, or higher monthly dues. Look for a reserve that is over 70 percent funded to ensure that special assessments or deferred maintenance will not be required.

You can pay for an educated guess. If you want professional advice, Association In\$ights, a division of Association Reserves in the U.S., will scrutinize an HOA's financial documents to determine the likelihood of the HOA levying a special assessment

within the following year. For a fee they will provide you with a “Risk eValuator Report”. The eValuator report also provides information on location and community facilities and the status of legal filings, assessments, tax filings, insurance coverage and management, and grades the HOA, from A for excellent to F for being a financial failure.

Owners or renters? On time or delinquent? Other factors that indicate the financial health of an association include the percentage of owner-occupants and the percentage of 60-day delinquencies. The higher the percentage of owner-occupants, the more residents there are on site with a vested interest in the well being of the community. Look for 75% or more owner-occupants for the healthiest community. Also look for 5 percent or fewer of the HOA’s members delinquent in paying their dues. This is an indication that there is a steady flow of cash and a well-managed budget.

Ask the experts - but first you have to find them!

The rapid growth of the condo sector has created a need for information for consumers on everything from construction defect litigation to the most recent laws. Check your local municipality or regional government for organizations that can offer you current information on buying a condominium in your area. The National Association of Realtors in the U.S. and Canada Mortgage and Housing corporation in Canada are also excellent sources of information for real estate consumers.

An Ounce of Prevention...

If you are considering a condo purchase you would be wise to:

- Hire a real estate agent and/or attorney experienced in condo transactions and familiar with the relevant legislation
- Obtain a title search and the condo’s legal documents. The seller may be required by law to disclose the condo’s constitution and governing documents, newsletters and HOA minutes
- Review the by-laws – you’ll have to live by them!
- Check into the community’s age, reserves, percentage of owner-occupants and delinquent dues payments
- Meet your potential neighbors, association executives and management company, if appropriate.

In Conclusion:

Condo ownership is not for everyone - but it may be the ideal form of home ownership for you. For an individual or family seeking a means of building equity without the hassles of yard-work and other outdoor maintenance projects and the indoor chores and financial responsibilities that single-family homeowners typically face, condos are a popular choice. If you are a good neighbor, enjoy working with others and would rather own than rent, purchasing a condo may be the best decision you have ever made.

Additional Information:

- National Association of Realtors - <http://nar.realtor.com/>
- Reserve Associates - www.reservestudy.com
- Canada Mortgage and Housing Corporation - www.cmhc.ca