



## Why Do You Need A Reserve Study?

*Know What Expenses Lie Ahead*

By Tony Chiarelli

**B**efore we establish the why, let's briefly cover the what. A reserve study is an analysis of all common-area components to establish their current condition and projected life expectancy. Things such as roofs, pavement, siding, exterior lights, fencing, pools, hallways, lobbies, and clubhouses. The cost to replace or significantly repair each item is established, and a spreadsheet is developed to illustrate how much money the association should be contributing to its reserve account each year to set aside the necessary funding for the replacement or repair of those components when it becomes necessary.

It is important that the reserve study be performed by an experienced and trained professional who is familiar with not only the physical aspects of the components but also the nuances of community associations and the challenges they face. It's easy to put a bunch of numbers on a spreadsheet without taking into account the human aspect of the potential impact those numbers may have.

Simple example: A shingle roof has a life expectancy of 10 years, and the projected cost for the roof replacement is \$100,000. The association should be setting aside \$10,000 per year for 10 years to have the \$100,000 when the roof is ready to be replaced. Naturally, there should be contingencies for inflation and interest earned, but that's more of an accounting issue.

### A Long-Term Look

Now back to the why. Association boards have a fiduciary responsibility to the entire community to make the best long-term decisions they can. They cannot make those decisions about the physical property if they don't have an accurate picture of how much money they should be setting aside. The finan-

cial decisions for condominium associations should be made with an eye toward "How would this decision affect my grandchildren?"

Much too often board members and

association needs a current and accurate reserve study. It's like running a business: You have to take your personal feelings out of it and make decisions for the community as a whole.

Also, consider that if you had a reserve study done and it is more than three years old, it should probably be updated because construction industry pricing has risen close to 50 percent over the last two years, making your three-year-old reserve study inaccurate.

### Providing a Target

Many times at older communities (12-15 years or older), the end result is that the spreadsheet will indicate that the amount of money needed is significantly more than what they had been contributing, and such an increase would be a hardship on the residents of the community. In that situation, the reserve study would show you how far off your current planning is so that you can work toward it. You may not be able to get all the way there, but at least you will know that in X number of years you'll most likely be facing some kind of an assessment or possibly have to consider a bank loan.

Having a reserve study done will eliminate those unnerving financial surprises that nobody likes to experience. Once you've done a reserve study, USE IT! It is a valuable planning tool that you will pay good money for. Don't just peek at it when you get it and then put it in a drawer. Refer to it at budget time and make your own adjustments as you go until it's time to have it professionally updated.

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### EXAMPLES OF SOME RESERVE STUDY COMPONENTS

- Roofs
- Siding and Trim
- Masonry/Stucco Façade
- Pavement/Sidewalks/Curbing/Guardrails
- Exterior Lighting and Light Poles
- Pools
- Fencing
- Tennis Courts/Putting Greens
- Hallway components (carpeting, walls, lighting, etc.)
- Mechanical/Boiler Room Components/HVAC Equipment
- Electric Service Components
- Emergency Generators
- Air Handlers/Cooling Towers
- Elevators
- Clubhouse Buildings (everything inside and out)
- Lobby Areas
- Septic Systems
- Maintenance Equipment & Tools
- Decks/Balconies
- Irrigation Systems
- Security Systems

homeowners believe they are probably not going to be living at the condominium for a very long time, so they endorse the decisions that impact them the least financially. This way of thinking will eventually leave whoever is left at the property with a very big financial burden, and sometimes it's not so very far into the future. It is not uncommon for that type of thought process to backfire 10 years later, when the original residents are still around. Every condominium