HOW MUCH RESERVES SHOULD A CONDO HAVE?

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Association-governed communities come in all types, shapes, and sizes. They may be known by different acronyms — Condos, Co-Ops, HOAs, POAs, or PUDs — and residents choose to live there for a variety of different reasons. One of those reasons is having affordable access to amenities related to leisure activities. This can include a pool, a fitness facility, tennis courts, playgrounds, parks, golf course, and more. And keeping these desirable community features up to date and well-maintained over the years requires a predictable amount of capital. This capital is called the Reserve Fund.

Having an adequate condo Reserve Fund means that your facilities are able to be repaired when something breaks. If the paint on the buildings is starting to peel, or the asphalt in the parking area is developing cracks or the tennis court fence needs to be replaced, those items would be paid using Reserve Funds.

But how much reserves should a condo HOA have? How can managers and board members know if the amount of Reserves is enough to cover inevitable repairs down the road? Just like all other Association-governed communities, condos benefit tremendously from having an adequate Reserve Funding Plan in place.

How Much Should You Have in Your Condo Reserve Fund

Every property has its own unique list of common area assets that the HOA is responsible to maintain. **On average, HOAs should be setting aside 15% to 40% of their total assessments towards Reserves.** This percentage holds true for all types of associations. In planned unit developments (PUDs) where each homeowner maintains their own home, the association may only be responsible for a minimal Reserve budget. Reserve contributions for condos with a short list of amenities or more cost-efficient exterior finishes would also lean more towards the lower end of the range. Properties with a longer list of shared high-maintenance amenities like pools, spas, elevators, tennis courts, balconies, and wood siding would be at the higher end of the range.

Assuming an average monthly condo assessment of $400, this can mean **somewhere between $60 and $160 per unit, per month** should be earmarked for Reserves.

If the average condo represents 100 units, that translates to only $2 to $5 per unit, per day. Which when you think about it, is the cost of a premium cup of coffee. Viewed from this perspective, the money that is set aside to maintain your condominium's major components is not that much, especially when compared to the many financial benefits.

How a Condo Reserve Study Helps

A Reserve Study enables you to make fact-based, data-driven decisions, avoid being surprised by special assessments, budget responsibly for predictable repairs & replacements, save money, and protect property values.

By establishing a reserve budget for items needing repair and replacement down the road, condo owners can avoid financial surprises. A Reserve Study study provides condo owners and board members with well-researched and defensible expense projections so that they can adequately set aside Reserve Funds for inevitable projects in the future. This way the Reserves can be funded at the same pace as the property's deterioration and in time for actual repair or replacement costs.

A Reserve Study for your condo tells you three things:

- What you specifically are reserving for, also known as the Component List.
- The strength of your condo Reserve Fund, also known as Percent Funded.
- A Funding plan to enable timely repairs and replacements for your condominium common areas, without having to rely on additional or outside funding sources.

By knowing these three key results, your Board is able to make informed decisions about how to fund Reserves and can establish a funding plan that ensures you will have enough funds available when your roof needs to be replaced or the buildings need to be repainted.

How are Condo Reserves Funded?

The Reserve Fund is managed by the HOA's volunteer Board of Directors and funded by all the homeowners.

The funding plan relies on a calculation that measures the current strength of your Reserve Fund. This is known as Percent Funded and is part of National Reserve Study Standards.

100% Funded means you have cash on hand equal to the deteriorated fraction of your Reserve components. If your association is new and you have very little deterioration, the value of that deterioration is small, and it doesn't take much Reserve cash to be 100% Funded.

But if your Percent Funded is low (0-30%), as is the case with many older associations, it means the association has much more deterioration than cash in Reserves. The association in this case is underfunded and needs to play "catch up" in order to have money for Reserve projects. Because of the "catch up" effect, associations with a weak Percent Funded will have higher risk of needing to pass a Special Assessment than associations that find themselves in a strong (70-130% Funded) position.

The resulting size of your Reserve Fund is affected by the number of components and the scope and schedule of repairs and replacements. A large association with numerous common area amenities will need a higher Reserve Fund balance. Smaller associations with a low number of amenities will require a smaller Reserve Fund balance. Regardless of the actual amount in reserves, underfunded properties should be striving to improve their Reserve Fund strength by aiming for a strong (70% funded or higher) position.

Special Assessments

If your condo doesn't have enough cash in reserve to cover the expenses of a major repair or replacement, you could be subject to a Special Assessment.

Special Assessments are bad news, as it results in the Board having to rely on the current base of homeowners to cover the cost of past underfunding, paying out-of-pocket, oftentimes with little notice. And these costs can run upwards of thousands of dollars per owner, depending on the type of project.

How Often Should a Condo Reserve Study Be Done?

Once your condominium has completed a Full Reserve Study, you should update your Reserve Study every year. It's also recommended that an update based on an on-site visit be conducted every three to five years. Reserve Studies are legally required for Association-governed communities in over 20 states, including California, Florida Hawaii, Nevada and Washington.

Strengthen Your Condo Reserves with The Experts

Make your present less stressful and your future more financially secure by working with the nation's leading provider of Reserve Studies. At Association Reserves, we have over 30 years of expert advice and competency. We comply with National Reserve Study Standards to assure a complete, consistent, unbiased assessment of your property's financial health.