

Reserve Studies
This Probably Never Happened To You, But...
(#135)

It's the middle of January. The tenant from #3 called this morning to report that during the rains last night the roof leaked (again), and that the water had soaked the carpet in the living room (again). You've been patching that roof for several years.

You finally come to the conclusion that you can no longer put off the decision to re-roof. You call a few companies requesting bids. You call some "old-and-trustworthy" companies, and a few about which you know almost nothing.

When the bids come in you go into temporary shock. Then the "thought process" goes something like this: You had no idea it would be so expensive.

How-the-heck are you going to come up with that much money, this month?

Why is it that the company I know-and-trust the most is also the most expensive?

(And this one's the worst) I wonder if I can get away with accepting the low bid, even though I know almost nothing about this company.

The shock and the unfortunate "though process" that followed were all a result of not having a plan, not having done a RESERVE STUDY.

All Condominium / Homeowner Associations in the state of California are REQUIRED BY LAW to have a Reserve Study, and to up-date the Reserve Study annually. This is to protect the owners from financial surprises stemming from the predictable need to replace the BIG TICKET ITEMS.

Unless you, as an owner, are so well prepared that you can write a check for a new roof "without blinking", then you should consider doing the same.

There are companies (such as Association Reserves, 1-800-733-1365) that perform this service. However, they do have a minimum charge of \$1500. This may be about right for a 30 unit building, but would be rather high for a 10 unit building.

The concept is fairly simple:

Component	Cost	years until needed	per year	per month
Roof	30,000	10	3,000	250.
Ext. Paint	27,000	5	5,400	450
Asphalt	15,000	12	1,250	104
Plumbing	45,000	15	3,000	250

Total amount needed each month for expected future repairs: \$1,054.

"Cost" and "Year" figures do not apply to any particular building, and are used only for example.

Or, You can take a "short-cut" that would be better than nothing. Out of the 5,900 condominium units we manage, the average contribution to reserves is \$45 per unit. You could set-aside at least this amount aside each month (per unit) until you have built up a fund that would equal the present cost of a re-roof and an exterior re-paint. This would give you the comfort to then pick the "best" company to do your re-roof job rather than just the cheapest.

Whether you own 2 units or 60, you should be preparing for these expenses. It just makes good business sense.

Dear Readers:

This article is the 135th in a series based on the lessons we have learned the hard way. The contents of these articles are merely opinions of the writer. They are not intended as specific legal advice and should not be relied upon for that purpose. Our practice is in constant refinement as we adjust the way we operate to an ever-changing market. I appreciate your questions, comments, suggestions, and solutions. Contact C. Finley Beven, CPM, CCAM, JD. 99 S. Lake Avenue, Pasadena. (626) 243-4145. FinBeven@MSN.com