Reserve Study and Insurance Appraisal should be part of the Turnover Process

During the process of turning a condominium or homeowner's association over to the new community, when it comes to insurance, the policy moves from builder's risk to property/casualty and flood at such a time when the buildings are nearly complete. The amount stated in the insurance policy is often set by the developer and the insurance agent, insofar that an insurance agent will typically reach out to the developer and inquire how much it cost them to build the property. If the association's manager doesn't do their due diligence and fails to hire an appraiser to conduct a state mandated insurance appraisal (only for condominiums), instead going with the value given by the developer, they leave the association open to risk by underinsuring them. The reason the developer's value is too low is because the values they provide are based upon their significantly more efficient economy of scale, which enables them to build more for less, and in the case of insurable value, the difference also stems from builders stating the new construction value, when it is actually the reconstruction value which should be used to set insurable value. All this added together can amount to a difference of anywhere from 20% to 40%.

Associations also typically hire engineers to conduct a turnover study, which contains the evaluation of the building structure and components and a life-cycle analysis with basic cost information for the replacement item. This, however, is not a full reserve study with a financial analysis looking into the future for 30 years and a computation detailing the necessary assessment per unit per month. In addition to a turnover study, associations start their life with reserves funded by the developer, although these are usually funded only to the extent required by law and for a limited number of components, such as roofing and paint. As with the insurable value being set too low in most cases, the reserves developers set aside are not enough to cover even those basic costs, and are similarly based on the developers own numbers.

In both cases, the utilization of developer values stems from the developer's desire to keep association fees intentionally low so as to better market and sell their product. While there's nothing inherently wrong with that, it leaves associations underinsured and under-reserved – in other words, ill prepared and in the dark.

Regardless of the specific confluence of reasons for the lower values, the result is that many associations are underfunded and underinsured. This is where Staebler Appraisal and Consulting comes in – through our many years of experience, we have come to see, time and time again, that many association operate with builder values and find themselves unable to pay for even basic necessities such as new paint a few years down the road. We understand that the perfect time to start reserving and to acquire an insurance appraisal is at the very beginning during the turnover process.

Although there is no law on the books which mandates that associations, both homeowner and condominium, order an independent reserve study, it is highly recommended in order to enable new communities to begin their life on the best possible footing, both financially and structurally, by identifying all components that must and should be reserved for.

The question to ask yourself, whether as an owner or a board member, is how you want to forge the financial future of your association – do you want to start strong, with a good grasp on your future expenses, or do you want to limp behind and spend years trying to correct mistakes? Do you want to become a ‘special assessment community’ or would you prefer the safety and security of knowing you’re in a sound financial situation, without the need for erratic acquisition of large sums, which places unnecessary burdens on homeowners?

Call us for a free consultation.

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hereby attests that

Patricia Staebler

has successfully met the standards established by CAI
and has agreed to abide by the Professional Reserve specialist Code of Ethics established for a

RESERVE SPECIALIST™
RS™

and is therefore entitled to all related benefits and privileges.

CEO, Community Associations Institute

November 2017
Date

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Designation Number

This certificate is valid only as long as the holder remains in good standing.