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Tough economy puts pressure on Hawaii condo groups

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As the economy continues its slide, condominium associations that have had to shell out for higher utilities and services over the past year may find themselves tempted to divert money from another budget line to avoid raising maintenance fees.

But tapping into reserve funds can cost residents even more down the road.

By law, every condominium association is required to set aside a certain amount of money each month for a reserve account, money that pays for capital expenditures such as painting the building's exterior or replacing a roof.

The amount saved each month is determined by a reserve study, a budgeting forecast that uses current costs and inflation rates to estimate replacement costs and capital expenditures over a 20-year or longer period.

The reserve study lays out a schedule for when the building is to be painted, when a new roof will be installed, when an elevator is to be replaced or when a pool is to be retiled. It also takes into account the replacement schedule for such items as washing machines, dryers and barbecue grills, considers major landscaping projects and schedules when parking lots need to be repaved.

Requiring associations to save

Hawaii is one of only a few states that require condominium associations to both conduct annual reserve studies and to fund reserves. California, for example, requires a reserve study, but doesn't require associations to fund their reserves.

When Hawaii's law went into effect in 1993, many associations were underfunded because they hadn't been required to save.

The poor economy during the 1990s also saw higher numbers of delinquencies in maintenance



Christina Failma, PBN
CertaPro Painters Rob Parnell, top, and Roy Tamayo use ladders to paint hard-to-reach areas while foreman Chris Averette works on a wall at the Crosspointe residential complex in Ewa. Saving money for maintenance is a critical issue for condominium associations.

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fees, so associations were squeezed further.

"We're seeing that cycle again this year," said Dale Armstrong, president of **Armstrong Consulting** in Aiea, which conducts reserve studies for some 300 condominium associations, hotels and time shares in Hawaii.

When money is tight for an operating budget, a board may be tempted to cut back on the reserve contributions to keep the maintenance fee increases down.

"The most common mistake we see in management companies or boards in preparing budgets ... they say let's not increase the reserve contributions this year," said Richard Emery, president of Hawaii First property management company, which prepares reserve studies for the associations it manages.

One building delayed increasing its contributions to its reserve funds for so long that the board was forced to raise maintenance fees by 70 percent this year, he said.

Board members also may defer high-cost maintenance projects and repairs to save money. But that could come back to haunt them.

The largest expenses are typically the exterior coatings and the repairs that go along with them — painting the building and applying coatings to walkways along with repairing wood rot and concrete spalling. That's followed by roofing and coatings for parking lots and ramps.

The association for one building found itself in court after underfunding caused it to levy a special assessment on the owners not just once but four times — in 2004, again in 2007 and two more times this year — to pay for a whole range of deferred maintenance.

- Delaying general maintenance, such as painting the building's exterior, also can significantly increase the cost when the work is finally contracted.

Micheal Iles, owner of the CertaPro Painters franchise on Oahu, recently looked at a condominium project and found the building needed more than \$250,000 in carpentry work on a \$250,000 paint job.

"The price of the paint doesn't go down, the price of labor doesn't go down," Iles said. "The only thing you're doing is making sure it's going to cost you more in the future."

The cost of painting has gone up about 25 percent in the past 10 years, far more than some reserve studies have projected, which can cause sticker shock for board members.

"I think most associations tend to look toward 10-15 percent," Iles said. "I've done a few estimates that came up a quarter million and the association had expected \$100,000."

Avoiding bad advice

A lot of people don't know how to calculate the proper reserve requirements, Emery said. And too many associations are lulled into a false sense of security because they have received bad advice.

"You need to have the most professional evaluation of your reserves to do a good job," he said.

That sometimes means using a third party to conduct a reserve study because it could be a conflict of interest for a property management company to conduct one, Armstrong said.

A management company could delay projects in order to keep a client happy and not raise fees, Armstrong said, noting that he has seen more special assessments occur in the past couple of years because of management companies doing reserve studies.

Hawaiian Properties Ltd. hands off reserve studies to companies that specialize in them, at a cost ranging from \$1,500 to \$5,000, depending on the size of the condominium, said President Dass Ramadass.

Although the company updates the study on a yearly basis, it recommends that associations have a new reserve study done every five years, he said.

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