

Unravelling the MYSTERY OF CONDO FEES

- Condo fees can be a mystery, an inconvenience and a blessing all rolled into one. They may be estimated at the time you purchase a new condo, but change significantly after you have lived there for a short time. The fees may cover utility costs, maintenance costs, reserve fund needs and insurance. There is a method to the madness, but it is not always discernible to the untrained eye.
- During the first year of a condo development's life, expenses are paid through an "estimated proposed budget," which has been determined by the developer, based on other, similar developments. At the end of the first year, the condo board examines the budget, taking into account the reserve fund study and any additional costs that have been identified over the year.
- "Realistically, even when the board is in place, and the budget is made, you can't tell how much will be needed for expenses until after the first year," says Maria Bartolotti, managing director and owner of New Concept Management. After that, she says, the board can identify needed improvements and unexpected expenses. She explains that because the market moves so fast, the board generally will not choose to lower the current fee, although they may need to raise it.
- Condo fees comprise administration expenses, operating expenses, maintenance costs, insurance, and reserve fund contributions. Administration expenses include audit fees, management costs, miscellaneous accounting costs, stationery and bank charges. Operating expenses include the maintenance and care of all common areas, from janitorial and security services in apartment-style condos to common-area lights and waste removal.



In order to identify the reserve fund needs of their condo, the developer, or, more often, the condo board, hires an engineer to assess the property and its components. This is called a reserve fund study. In a development of 12 or less units, the board may conduct the study. The study looks at all the common components of the property, from exterior components to major appliances and amenities. It identifies the life expectancy of each item, as well as the cost to replace it. Next, the reserve fund expert or the board (depending on who is doing the study) conducts a cash flow analysis, in order to determine the monetary requirements to deem the project "fully funded." In the case of conversion projects, the reserve fund study may also include an analysis of the history of the property.

When designing a new project, developers

If planned properly, a reserve fund allows for large expenses to be spaced out over years. The initial reserve fund study is followed up by five-year checkups to identify any needed changes.

For a prospective condo buyer, all this can be quite overwhelming. As is the case with any major purchase, it pays to do your homework. In this case, the buyer should attempt to determine whether the condo board has a sufficient reserve fund in place, or whether a new condo development will call for a hefty reserve fund.

"Consumers look at aesthetics," says reserve fund expert Harold Weidman, AACI, P.App, CRP, of The Weidman Reliance Group Inc. "They need to look at the technical aspects of a condo development." The developer may have gone all out installing the trendiest flooring, paint, appliances and

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must constantly match what the consumer is willing to pay with the longevity of different materials. While some expensive materials may last longer than other, less expensive materials, the developer has to determine just how much buyers are willing to pay. The trick is to balance quality, cost and marketability.

"It's always the cost versus the benefit that the developer must take into account," says George Mylonas, president/CBO of Landstar Development Corporation. "For himself, but also keeping in mind what his customers might be faced with over the years."

hardware, but buyers should be sure to check into the status and quality of major components such as the roof, furnace, elevator and boiler.

It may be helpful to consult a condo document review service before buying a condo. These services will determine whether the reserve fund is sufficient, among other things. Consumers should look things over for themselves as well, says Weidman.

"Document review services may use blanket requirements when assessing the reserve fund," he says, "But each development is