

A row of colorful houses under a clear blue sky. The houses have various colors like red, orange, blue, and purple. One house has a white chimney. There are green bushes in the foreground. A large green rectangle is on the left side of the image.

Making Sure HOAs Don't Ruin Your Real Estate Investment



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All information and materials are for **educational purposes only**. All parties are encouraged to consult with their attorneys, accountants and financial advisors before entering any type of investment.

Today's Agenda

- ❖ Introducing HOAs
- ❖ Reviewing Top HOA Issues to Consider
- ❖ Comparing Types of HOAs
- ❖ What to Know Before Inspection
- ❖ Analyzing New Laws
- ❖ Q&A





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Munzer Ghosheh



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Investing in HOA's: What no one is talking about.....



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OUR TEAM



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DeGroot**
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John Grundman
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So, you want to invest in a property in an HOA.

Hurdles?

- Inspections
- Insurance



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What is an HOA?

An HOA, or homeowners' association, is:

- a private non-profit organization that governs a residential community such as a subdivision, planned community, or condominium building.
- charged with setting rules and collecting fees to maintain common areas and amenities.
- Membership is typically mandatory for property owners within the HOA community



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What should you expect from an HOA?

Guidelines to help maintain property values and community standards.



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What should you expect from an HOA?

Fees and what they cover



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Top HOA Issues to Consider

What are the top common HOA problems?



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Types of HOA's and examples

Let's start by looking at HOAs and how they differ in their management and effectiveness, as well as the communities and the homes themselves.



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- Types of HOA's and examples

- Self Managed – typically small number of units. Below is a 6-unit HOA



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- Types of HOA's and examples

- o Managed with Great Board of Directors and Property Management Company – Experienced and up to date on all current and new laws



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- Types of HOA's and examples

- Managed by Board of Directors (nonexistent) and Property Management Company (not engaged)



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- Types of HOA's and examples

- Managed by Board of Directors (present, but not familiar with laws) and
Property Management Company (not current on laws, rules and regulations)



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- Types of HOA's and examples

- Managed by Board of Directors and Property Management Company – all in in great standing, but Member's not engaged.



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So, you want to invest in a property in an HOA. What steps should you take?

- You need the name and phone number of the:
 - HOA Management Company
 - HOA President



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What you need to know before inspections, maybe before an offer....

What should you request from the HOA:

- Annual Disclosure Package –
 - ALL Owner's receive these yearly in CA as a package. In other states the HOA has the information.



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- Operating Budget
- Reserve Study
- Assessment and Reserve Funding Disclosure Summary (CA Civil Code 5300)
- Policy Statements (CA Civil Code 5310) including:
 - Communication and Document Delivery
 - Enforcement of Governing Documents and Violations
 - Internal Dispute Resolution (CA Civil Code 5905)
 - Alternative Dispute Resolution (CA Civil Code 5965)
 - Insurance Summary (CA Civil Code 5300(b)(9) & 4177)
 - Charges for Documents (CA Civil Code 4525)
 - Assessments and Foreclosure (CA Civil Code 5730)
 - Architectural Review and Approval process



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Typical first page of an Annual Policy Statement package

Annual Policy Statement 2025

In compliance with California Civil Code §5310 the Association is providing the following disclosures to the members:

- 1) The Board of Directors has designated their Management Company to receive all communication on behalf of the Association. Please send all communication to the following address:

Please see the enclosed association communication policy which provides detailed instructions on how owners must send documents and other communication to the association.

- 2) Pursuant to Civil Code Section 4040(b), an owner has the right to submit, in writing, a secondary address to the association's management company for the purpose of receiving (1) annual reports the Association is required to provide and for (2) mailings and notices related to assessment payments, delinquencies and foreclosures at an additional address.
- 3) The Board of Directors has designated the following location for posting of a general notice to the members: General Notices for the association are posted at the mailboxes, as well as posted to AppFolio.
- 4) Pursuant to Civil Code 4045(b), upon receipt of a written request to the association's management company, an owner may receive General Notices by Individual Delivery.
- 5) In accordance with California Civil Code 4950 homeowners have the right to copies of the minutes of meetings of the Board of Directors excluding executive session minutes. Minutes of all Board of Directors meetings are kept on file at the office of the association's management company and will be made available within 30 days of a meeting. Minutes may be viewed or obtained during regular business hours, by giving reasonable notice, to the association's management company. The association may require reimbursement of the association's costs for making that distribution.
- 6) Pursuant to Civil Code 5730 the statement of assessment collection policies is included in this packet.
- 7) The association's policies and practices in enforcing lien rights or other legal remedies for default in the payment of assessments is included in the Community Guidelines titled Assessment Delinquency Policy.
- 8) The association's discipline policy, if any, including a schedule of penalties for violations of the governing documents is included in this packet.



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What you need to know before inspections, and appraisal expense....

What should you request from the HOA:

- Covenants, Conditions and Restrictions (C.C.&Rs.), as well as ALL approved policies, procedures, and bylaws.



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What you need to know before inspections, and appraisal expense....

What should you request from the HOA:

- Last 12 months of Board and Committee minutes



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What you need to know before inspections, and appraisal expense....

What should you request from the HOA:

- Current Reserve Study



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Description	Replacement Year	Useful Life	Adjustment	Remaining Life	Current Cost	Assigned Reserves	Fully Funded
Balcony Walls/Handrails	2036	20	0	12	32,065	0	12,826
Decks - Deck Sealing & Inspection	2028	5	0	4	17,000	0	3,400
Decks - Resurface	2038	15	0	14	34,000	0	2,267
Decks - Wood, Cedar/Redwood, Replace	2047	25	0	23	6,450	0	516
Doors - Solid Core/Hardboard	2025	22	17	1	5,250	0	5,115
Fencing - Solid Board	2040	22	0	16	20,790	0	5,670
Fire Alarm Panel	2032	10	0	8	2,500	0	500
Fire Extinguisher Cabinets	2026	20	20	2	2,340	0	2,223
Floor Cover - Carpet	2025	8	7	1	1,070	999	999
Gutter - Cleaning	2024	2	0	0	3,000	3,000	3,000
Gutters & Downspouts - Replacement	2050	30	0	26	2,460	0	328
HVAC - Furnace, Wall	2025	25	14	1	1,750	1,705	1,705
Irrigation - Restoration	2031	10	0	7	3,000	0	900
Landscape - Restoration	2031	10	0	7	5,000	0	1,500
Lighting - Building	2047	25	0	23	4,575	0	366
Lighting - Carport	2025	25	14	1	1,800	1,156	1,754
Lighting - Pole	2025	25	14	1	2,625	0	2,558
Paint - Exterior Trim & Siding	2024	8	0	0	49,500	49,500	49,500
Paint - Interior, Enamel	2025	10	0	1	1,500	1,350	1,350
Paint - Stucco	2032	16	0	8	33,000	0	16,500
Roofs - Built Up w/Gravel	2025	14	0	1	80,500	75,133	75,133
Roofs - Composition Shingle	2036	30	0	12	62,700	0	37,620
Stairways and Decks	2048	25	0	24	50,000	0	2,000
Streets - Asphalt Overlay	2042	25	0	18	46,695	0	13,075
Streets - Asphalt Slurry Sealing	2027	5	0	3	4,669	0	1,868
Termite Control - Fumigation	2026	15	5	2	14,300	0	12,870
Trash Enclosure	2031	10	0	7	3,500	0	1,050
Walks - Concrete, Unfunded		Unfunded					
Wood Repair	2024	8	0	0	5,000	5,000	5,000
Total Asset Summary					\$497,039	\$137,843	\$261,592

Percent Fully Funded 53%
Current Average Liability per Unit (Total Units: 21) -\$5,893
'D' Component Deferred, Life Extended One Year



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RESERVE FUNDING SUMMARY
(Recommend Allocation Model in Dashed Box)

	<u>Per Year</u>	<u>Per Month</u>	<u>Per Unit Per Month</u>
ALLOCATION BUDGETED IN 2024	29,295	2,441.25	122.06
STRAIGHT-LINE ALLOCATION IN 2025 (WITHOUT DEFICIT REDUCTION)	24,542	2,045.17	102.26
STRAIGHT-LINE ALLOCATION IN 2025 (WITH DEFICIT REDUCTION)	143,409	11,950.75	597.54
<small>Recommended Annual Allocation plus any underfunded balance divided by the years remaining until replacement of each component (also shown on graph)</small>			
MINIMUM CASH BALANCE IN 2025	34,078	2,839.83	141.99

**PERCENTAGE OF ACTUAL RESERVES AT FISCAL YEAR END VERSUS
FULLY-FUNDED RESERVES AT FISCAL YEAR END:**

24%



What you need to know before inspections, and appraisal expense....

What should you request from the HOA:

- Current Balance Sheet



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Cash Operating		
10700 - Alliance Association - Operating	\$32,991.71	
Total Cash Operating		\$32,991.71
Cash Reserve		
12000 - Alliance Association - Reserves	\$13,214.56	
12001 - First Citizens Bank CD 7/24/25 4.25% ..6129	\$20,000.00	
12002 - First Citizens Bank CD 10/24/25 4.25% ..6128	\$45,000.00	
12003 - First Citizens Bank CD 1/24/26 4.15% ..6127	\$15,000.00	
Total Cash Reserve		\$93,214.56
Accounts Receivable		
15000 - Accounts Receivable	\$905.50	
15200 - Receivable Other	\$800.00	
16090 - Allowance for Doubtful Accounts	(\$800.00)	
Total Accounts Receivable		\$905.50
Other Assets		
17570 - Prepaid Ins: Package	\$1,524.19	
17600 - Prepaid Ins: Workers Comp	\$243.31	
17700 - Prepaid Federal Tax	\$15.00	
17800 - Prepaid Franchise Tax	\$24.00	
Total Other Assets		\$1,806.50
	Total Assets	\$128,918.27
Accounts Payable		
20000 - Accounts Payable	\$602.33	
23300 - Documentation Accrual	\$9,708.00	
23310 - AP Manual Accrual	\$123.20	
Total Accounts Payable		\$10,433.53
Liability		
22500 - Prepaid HOA Dues	\$13,698.03	
Total Liability		\$13,698.03
Equity Reserves		
33100 - CC RESERVES - Common	\$27,020.14	
33110 - CC RESERVES - Donegal	\$19,376.94	
33120 - CC RESERVES - Kilarney	\$22,948.87	
33150 - CC RESERVES - Diablo	\$23,608.97	
35100 - Reserve Interest	\$259.64	
Total Equity Reserves		\$93,214.56
Equity		
30050 - Prior Year's Net Worth	\$10,700.57	
30900 - Net Income	\$871.58	
Total Equity		\$11,572.15
	Total Liabilities / Equity	\$128,918.27

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash	\$ 13,062	\$ 311,523	\$ 324,585
Assessments Receivable	359	-	359
Prepaid Taxes	699	-	699
Prepaid Insurance	796	-	796
Prepaid Expenses	541	-	541
Total Assets	\$ 15,457	\$ 311,523	\$ 326,980
LIABILITIES AND ASSOCIATION FUNDS			
Liabilities			
Accounts Payable	\$ 1,481	\$ -	\$ 1,481
Prepaid Assessments	3,781	-	3,781
Deferred Assessments (Assessments Received In Advance - Replacement Fund)	-	311,523	311,523
Total Liabilities	5,262	311,523	316,785
Commitments	-	-	-
Association Funds	10,195	-	10,195
Total Liabilities And Association Funds	\$ 15,457	\$ 311,523	\$ 326,980



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What you need to know before inspections, and appraisal expense....

What should you request from the HOA:

- Current insurance declarations



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Insurance Disclosure

In accordance with California Civil Code 4177, each year _____ is obligated to distribute to its members a summary statement of the Association's policies of insurance, including the current summary of insurance policies for the Association.

This summary provides only certain information, as required by Civil Code 4177 and should not be considered as a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any Association member may, upon request and with reasonable notice, review the insurance policies and, upon request and payment of reasonable duplicate charges, obtain copies of those policies.

Although the association maintains the policies of insurance specified in the summary, the policies of insurance may not cover a member's property, including personal property, or real property improvements to or around a member's Lot or Improvements, or personal injuries, or other losses that occur within or around a member's lot. Nevertheless, a member may be responsible for paying all or a portion of the deductible that applies. Association members should consult with their individual insurance broker or agents for appropriate additional coverage.

GENERAL LIABILITY

Insurer: Fortegra Specialty Insurance
Policy Limits:\$2,000,000/\$4,000,000
Deductible:\$0.00
Renewal Date:11/30/2025

PROPERTY

Insurer: Fortegra Specialty Insurance
Policy Limits: \$10,215,300
Deductible:\$10,000
Renewal Date:11/30/2025

FLOOD (IF APPLICABLE)

Insurer:
Policy Limits:
Deductible:
Renewal Date:

DIRECTORS AND OFFICERS INSURANCE

Insurer: Travelers Casualty
Policy Limits:\$1,000,000
Deductible:\$2,500
Renewal Date:11/30/2025

EARTHQUAKE (IF APPLICABLE)

Insurer:
Policy Limits:
Deductible:
Renewal Date:

FIDELITY BOND

Insurer: Travelers Casualty
Policy Limits: \$75,000
Deductible: \$500
Renewal Date:11/30/2025

Business/General Liability Coverage

1. Name of Insurer: Travelers Insurance
2. Policy Limits: \$2,000,000/\$4,000,000
3. Deductible: \$2,500
4. Expiration Date: January 20, 2025

Property/Hazard/Fire Coverage

1. Name of Insurer: Travelers Insurance
2. Policy Limits: \$9,678,268
3. Deductible: \$2,500
4. Expiration Date: January 20, 2025

Directors & Officers Coverage

1. Name of Insurer: Travelers Insurance
2. Policy Limits: \$1,000,000
3. Deductible: \$2,500
4. Expiration Date: January 20, 2025



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One last area of concern:

Your Lender

- Owner occupied versus non-owner occupied unit ratio
- Has the complex been blacklisted?



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This by no means is an exhaustive checklist to work through. Every purchase is different, but these are areas to start looking at.



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Case Study



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As documents from the HOA arrived:

- The HOA was looking at massive shortfall in their reserves, to the tune of \$500,000, to pay for a long overdue roof replacement, tenting for termites, dry rot repairs, and so on.
- The shortfall did not include bringing the reserve fund up to acceptable levels.
- The 31 owners were looking at a very sizable special assessment.



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New Laws

In CA new laws are bringing unanticipated (unfunded) costs to HOAs:

- SB326 – Decks/Stairwells - Condominiums
- SB721 – Decks/Stairwells - Apartments



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Here is an example of a deck repair (one of seven decks needing repair in just this complex). Anticipated cost being split across 21 units is about \$300K, resulting in a costly special assessment.



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Time Is Precious,
Thank You For Sharing Yours



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Let's Wrap Up





Getting Started **in 3 steps**



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Getting Started **in 3 steps**

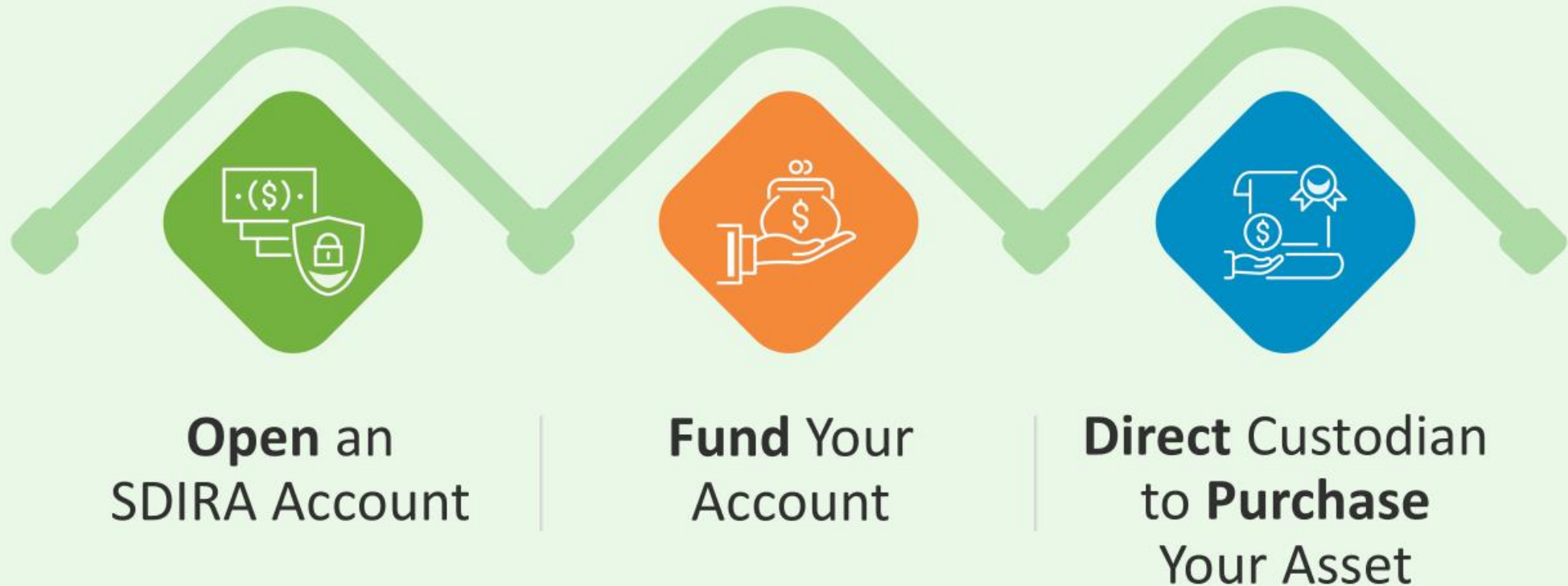


Open an
Entrust Account

Fund Your
Account



Getting Started **in 3 steps**





What's Next?

Sending you replay & additional resources

Our follow-up email will include video replay, slides, and more education

Register for May's Webinar

5 Golden Rules for Precious Metals Investing in IRAs





What's Next?

Need more information on SDIRAs?

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Question & Answer Session




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