Aging Communities - New Challenges Facing Many Common Interest Developments

By: Carson M. Horton, RS

Author's Note: *Common interest developments (CID) and the industry which serves them are at a crossroads. With the vast majority of all CID's in the United States having been created since 1975; and a substantial percentage of those dating to the period between 1975 and 1989, many CID's are approaching the thirty year milestone. Thirty years represents a challenging point in time for any community, and particularly those which are responsible for maintaining a significant inventory of common areas and components.*

Thirty Years, the Tipping Point for Reserve Planning

The last twelve to eighteen months have not been kind to homeowners. With prices falling throughout the country and the tightening of credit markets worldwide, mortgages have become difficult, if not impossible, for many homeowners and prospective buyers to obtain.

Owners of condominiums and other forms of attached housing located within common interest developments (CID) are faced with even greater challenges. Many lenders have become reluctant to grant mortgages on homes in these communities unless borrowers can provide documentation to show the association has a sound long term financial plan in place to pay for major maintenance and repair expenses.

In the case of FHA mortgage guarantees, the Department of Housing and Urban Development (HUD) the agency has established new underwriting guidelines for condominium mortgages which require a minimum percent funded level for reserve accounts of 60% for all existing associations. This funding threshold is beyond the reach of many associations; especially if they have neglected the reserve planning process for any period of time.

Conventional lenders may or may not require similar funding guidelines, but overall the message is clear; moving forward it is going to be much more difficult to buy and sell homes in general, and specifically in the case of condominiums or in those circumstances where a homeowner's association and its finances are a part of the lending equation.

As a result the issue of reserves and long range financial planning for CID's has suddenly become a prime concern for many communities. Older communities in particular are, in many instances, faced with monumental financial challenges as the specter of aging facilities and a lack of long term savings begins to loom in the near future.

As reserve planners and advisors we are often asked what exactly constitutes the long term, or a time line for a long range plan with respect to a common interest development and its reserve fund. The answer to this question, as you might expect, is not the same for

everyone. Factors unique to each situation require that every association devise a plan which is right for them. However, there are guidelines which are reasonable for most communities.

One such rule of thumb which may be applied to most situations, and must be considered an immutable law of life cycle costing and facilities maintenance planning, is that thirty years is a major landmark in the life cycle of most facilities. Not only are the majority of major components and building systems at or very near the end of their useful life after thirty years, but those which are not may certainly be expected to require replacement, or at the very least major repair, within another ten to twenty years.

To better understand the implications of the thirty year landmark let's examine several typical building components which are often found in the component inventory of the average reserve study.

The following represents typical useful life expectancies for common building components, based on recognized industry sources including: the department of Housing and Urban Development (HUD); the National Association of Home Builders (NAHB); and Reed Construction Data, Inc. (RCD).

Component	**Life Expectancy**	**Source**
Central AC / heat pumps	15 yrs	HUD
3-ply asphalt roof membrane	15 yrs	RCD
Furnace (indoor)	18 yrs	HUD
Single-ply roof membrane	20 yrs	RCD
Asphalt shingle roofing	20 yrs	NAHB
Asphalt driveways	20 yrs	NAHB
Wood decks & railings	20 yrs	NAHB
Aluminum gutters	20 yrs	NAHB
Exterior light fixtures	20 yrs	RCD
Wood shingle roofing	30 yrs	NAHB
T1-11 plywood siding	30 yrs	RCD
Elevator equipment	30 yrs	RCD
Aluminum downspouts	30 yrs	NAHB

Components expected to last beyond thirty years, but which generally require major repair or replacement within fifty years, include major building systems which many associations erroneously believe are going to last forever. Often when these systems do require replacement the owners within these communities find themselves facing huge special assessments due to their failure to develop and maintain a long range reserve funding plan during the previous thirty years.

Components with a useful life expectancy of thirty-one to fifty years include the following major building systems:

Component	Life Expectancy	Source
Copper water supply pipes	35 yrs	RCD
PVC & ABS pipes	35 yrs	RCD
Electrical branch wiring	35 yrs	RCD
Concrete paving	35 yrs	RCD
Operable windows	35 yrs	RCD
Inoperable windows	40 yrs	RCD
Steel frame / concrete tread stairs	40 yrs	RCD
Cast iron pipes	40 yrs	RCD
Exterior wood & metal doors	40 yrs	RCD
Redwood & cedar siding	40 yrs	RCD
Concrete block foundation walls	50 yrs	RCD
Pre-cast concrete stairs	50 yrs	RCD

It should also be pointed out that many components, such as electrical switch gear and service entrance equipment, which do not necessarily wear out within a predictable period of time, may none-the-less become functionally obsolete after a period of thirty or more years due to advances in technology; difficulty in obtaining replacement parts needed for routine maintenance and repair; and other factors which will result in the need for replacement of the components regardless of whether they may be functioning normally after thirty years.

In order to gain a better understanding of the challenges presented by the thirty year milestone let's examine a hypothetical example of a CID which is responsible for common area components typical of most communities, and the impact on their financial planning at twenty-five to thirty years of age. Assuming a component inventory which includes-

- roofing;
- asphalt & concrete pavements;
- gutters & downspouts;
- exterior lighting;
- building siding;
- decks or elevated walkways;
- plumbing and electrical systems;

Assuming the actual service life of each component is 5 years longer than the useful life expectancy would suggest, the association will be facing a financial obligation to provide repair and replacement funds for roofing, gutters & downspouts; asphalt pavement; exterior lighting; decks, railings, and elevated walkways at year twenty-five.

Furthermore, the association must now consider the need for replacement funds which will be required for components with a life expectancy of thirty plus years, including major expenses which are likely for plumbing and electrical system upgrades, and possibly concrete pavement replacement.

If it has been the tendency of the community to under-fund its reserves, or to not fund them at all, at year twenty-five they are facing a crisis of monumental proportions. Not only have several major components already exceeded their life expectancy - suggesting replacement may be imminent at any time – but they are faced with the added challenge of the need to begin funding for major expenditures which can reasonably be expected to occur within the next ten to fifteen years.

The burden presented by this combination of an immediate need for large amounts of reserve dollars, and the need to begin funding for expenses which are likely to be incurred within fifteen years, is often more than the association is able to manage. The result of this disastrous lack of planning is often the community begins to fall into a state of disrepair. This not only effects the quality of life for current owners, but is clearly evident to prospective buyers, thereby effecting the resale value of homes within the community.

To further complicate matters (when it rains it pours), the need for an ongoing stream of reserve funds after twenty to twenty-five years in order to provide adequate cash for recurring maintenance, repair and replacement expenses, places added pressure on the reserve funding process. Considering the well established axiom that as buildings age the ongoing maintenance and repair costs will tend to increase exponentially, it is easy to see how a CID which has failed to adopt a serious approach to reserve planning may very well find itself in a financial predicament from which it is unlikely to recover.

It is generally agreed by most experts that building components are not likely to wear out completely at the exact age which is assumed for each component's life expectancy. However, the objective of long range planning for repair and replacement of major common elements is to anticipate these major financial milestones; plan for them in a manner which is the least disruptive and most equitable to all owners (both present and future); and to be prepared to fund major repair and replacement projects when the need arises.

As communities approach the thirty year milestone they will be faced with numerous challenges. Among them are major repair and replacement projects which are inevitable, regardless of whether money is available to pay for them or not. It may be said that building components fall into one of two categories; those which will last the life of the building and those which will require replacement at least one time during the lifespan of the building. Virtually all components which *do* require replacement will have reached the end of their useful life within fifty years.

Associations which are not prepared for these expenses at twenty-five to thirty years of age may find they are facing an overwhelming obstacle in terms of raising the money needed to maintain and modernize their communities. As the number of aging communities increases those which are unable to afford major capital improvement projects are likely to find mortgage financing difficult to obtain, resulting in a negative impact on property values. By developing a proactive rather than reactive approach to the maintenance and renovation of the community's physical plant the interests of owners, lenders, insurers and community managers will be better served.