



Mortgage Insight: 5 Tips to Avoid Buying a Bad Condo

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Whether you are a first-time home buyer, or a retiree planning to "down-size" your residence, condominiums are "hot" during home-buying season. In most communities, condos are still affordable for home buyers and are no longer the "ugly ducklings" of real estate. They now appreciate in market value almost as fast as single-family houses.

Although condos have had their ups and downs in both popularity and desirability, most condo owners are very satisfied. Buying a condo may not be as simple as buying a house, however, if you know the right questions to ask, buying a condominium can be a profitable experience.

WHY BUY A CONDO INSTEAD OF A HOUSE?

In addition to the affordability of condos, the primary reason many condo buyers purchase is lack of maintenance concern. Condo owners don't worry about repairs outside their condo units because that is the responsibility of the condo homeowner's association.

Legally, a condo purchase involves very expensive air. Known as a "vertical subdivision," each condo owner purchases the airspace to the inner walls, ceiling, and floor surfaces of a specific residence unit.

The building structure such

as the walls, foundation, elevators, parking area, and roof, including outdoor grounds areas, is known as a "common area," which is owned by, and the maintenance responsibility of, the homeowner's association, which is owned by all the members.

In addition to affordability issues, the majority of condo buyers purchase for lifestyle reasons, such as recreational facilities, freedom from exterior maintenance, ability to lock the door and be away for extended periods, and enjoyment of luxury facilities at modest cost.

NEW OR RESALE CONDO;- WHICH IS BEST?

Owners of older resale condos usually have greater predictability of maintenance expenses and monthly fees because the construction defects of new units have been repaired. However, older condo associations often have gradually increasing maintenance costs as the property ages. But a well-managed condo association will budget for such expenses and set aside adequate reserves so special assessments won't be necessary.

Buyers of brand-new condominiums usually enjoy the latest up-to-date facilities and amenities. However, construction defects are a frequent problem unless the builder takes care of them without trying to dodge legal liability. For example, reportedly over 80 percent of California condo homeowner associations have sued their builder for construction defects.

Lawsuits by a condo associa-

tion against its builder, or involving any other defendant, can greatly hurt the resale of condos in that complex. Mortgage lenders often refuse to make loans to buyers where there is any litigation involving the condo association.

Another unexpected problem with brand-new condos is the developer often sets the monthly maintenance fees too low to adequately fund reserves for repairs. After all the units are sold, the unpleasant result is the homeowner's association has to raise monthly fee assessments to provide sufficient funds for expenses and replacement reserves.

THE 5 KEY QUESTIONS CONDO BUYERS SHOULD ASK

1.) HOW DO THE MONTHLY CONDO FEES COMPARE WITH NEARBY CONDO COMPLEXES?

Smart prospective condo buyers first ask, "What is included in the monthly assessment fee?" and then compare it with the fees charged at nearby condo complexes. However, be sure to compare apples with apples—make sure you compare similar expenses.

Wise condo buyers also carefully review the latest financial reports of the condo homeowner's association to check for adequate replacement reserves. If it is an older complex, the reserves should be relatively high per unit to provide for unexpected repairs. However, newer complexes usually don't need high maintenance reserves.

2.) WHAT IS THE FINANCIAL CONDITION OF THE HOME OWNER'S ASSOCIATION? ARE THERE ANY EXPECTED SPECIAL ASSESSMENTS?

Before purchase, condo buyers must be given a copy of the CC&Rs (conditions, covenants, and restrictions), by-laws, rules, and latest financial reports of the homeowner's association. In addition, smart buyers ask for and read the board of director's minutes for the last six meetings. A key question prospective buyers should ask is, "Are any special assessments under discussion or planned?"

For example, I recently had lunch with a very successful real estate broker who told me about a condo he recently sold for an elderly seller. He explained that only after the sale was almost ready to close, it was discovered the condo owner's association planned to levy a \$20,000 special assessment on each owner to pay for deferred maintenance.

There is no specific maintenance reserve guideline. But two general rules are a) \$2,000 to \$3,000 per unit, and b) 25 percent of the annual gross income of the association should be in the reserve account.

3.) IS THE CONDO ASSOCIA-

TION PROFESSIONALLY MANAGED?

Except for very small condo associations up to six units, every condo association needs a professional property manager. Prospective buyers should be wary of buying a condo in a complex that is self-managed, often by the owners or directors living in the property.

A related question is, "How long has the complex been managed by the same company?" Professional managers usually "earn" their fees from expense savings. For example, by shopping around for the best deal on insurance. Since he also manages other condo complexes, he controls lots of potential business for insurers.

4.) WHAT IS THE PERCENTAGE OF RENTERS IN THE CONDO COMPLEX?

If the answer is more than 10 percent, buyers should be cautious. If there are more than 20 to 30 percent renters, that's a very bad sign because mortgage lenders will either refuse to make loans in that complex or they will charge higher interest rates. Too many renters can hurt future condo sales.

A key reason to avoid condo complexes with more than a few renters is absentee owners often don't

care about maintenance of the property, the result can be declining quality of maintenance.

5.) ASK SEVERAL CURRENT RESIDENTS; "WHAT DO YOU LIKE BEST AND LEAST ABOUT LIVING HERE?"

A closely related question to ask is, "Would you buy a condo here again?" Most condo owner-occupants are very friendly and willing to share their good and bad experiences. While you are asking questions, don't hesitate to inquire, "How is the soundproofing here?" Poor soundproofing between condo units, upstairs and downstairs, as well as adjacent, is the number one complaint of condo owners.

Lastly, when making a condo purchase offer, be certain it contains a contingency clause for a professional property inspection. After the condo seller accepts your offer, be sure to accompany your professional inspector to determine if there are any undisclosed defects in the unit or the complex that might cause you to reject the inspection report.

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