Condo Insights #27 – The impact of current economic conditions on community and condominium associations – Part 1

What are the implications of the current economic environment for community and condominium associations? Seashore condominium associations can expect higher prices for goods & services and homeowners can expect increases in HOA maintenance fees. This multi-part column will try to explain some of the factors behind these increases.

We are in an inflationary period. While some businesses may be seeing some relief, this likely will not be the case for many other industries for the foreseeable future, including those that community associations rely on for goods, services, and performance of major maintenance projects. This high inflation period has been caused in part by lingering covid-related supply-chain influences; a hard market for insurers of seashore condos; mandated wage increases across the service sector of the local and regional economy; fewer housing options for seasonal workers in tourism communities, and the ripple effects of these factors on companies that serve community and condominium associations.

Annual operating budgets and HOA maintenance fees were generally stable, with minimal if any increases in expenses and fees. An Association operating budget is the 12-month forecast of association expenses. The expense budget is typically categorized into the following sections: administrative & general expenses; insurance; operating and maintenance costs; utilities; and an annual contribution to long term reserve funding. Funds to pay Association expenses come from maintenance fees paid by Association members. These fees are also commonly referred to as HOA fees or condo fees. The yearly activity cycle for a homeowner, community or condominium association used to be repetitive, consistent and predictable. For many years condo boards could forecast annual operating costs for their Association with relative certainty.

Within the past 12-24 months a series of changing economic conditions have made it more challenging for Associations to forecast annual operating expenses and maintenance costs. Higher operating costs, increases in insurance premiums, changes to the local labor market and higher reserve contributions mean HOA maintenance fees can be expected to increase.

Higher operating costs are caused by an inflationary cycle that continues to drive up material and supply costs. Lumber, concrete, building supplies, cleaning products and swimming pool chemicals have increased in price at a rate more than twice that of just a few years ago. Associations need cleaning supplies, pool chemicals and general maintenance materials to operate and maintain their buildings, so use of these products cannot just be eliminated. Associations have to pay close attention to supply usage and cost control efforts.

To highlight one product in particular, pool chemical price increases are the result of higher prices for raw materials coupled with fewer manufacturers and suppliers. Associations cannot defer a required operating expense and not opening the swimming pool is likely not a viable option for most Associations. Price comparison is important but there isn’t much an Association can do when all of the pool chlorine suppliers are realizing price increases from their manufacturers. This in turn may motivate some associations to move toward pool water disinfectant systems less reliant on traditional chlorine systems when it’s time for major pool renovations.

Administrative costs for licenses, inspections, office supplies and professional fees are also on the rise. Municipalities looking for ways to increase revenues are raising fees for municipal services, increasing inspection fees on Associations, and imposing new fees such as transient occupancy taxes on property owners that rent their condos. Professionals such as accountants, attorneys, engineers, and property managers serving community associations are also passing along their higher operating costs through increased rates and fees.

Additional columns in this series will focus on the other factors affecting Association expenses including insurance (the single largest expense in many Association budgets); the current labor market and the inflationary labor wage spiral affecting employers; the good and bad for seasonal service level workers;

challenges facing labor-intensive service providers; look at how major capital projects and reserve studies are affected by inflation; and offer suggestions on what Association Boards should do and what they should not do in this current economic environment.

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