

Condo Insights #21 - Challenges for Small Condo Associations

All condominium associations perform the same basic functions to operate and maintain their common property regardless of building size, construction type, amenities, etc. Smaller associations with fewer members have similar needs as a large multi-story building with dozens or hundreds of owners. The issues are the same, regardless of the number of units involved.

But if you own a condo in a smaller association you will deal with challenges not faced by larger associations. Small associations have limited resources. There is a smaller volunteer base to draw board members from, the time commitment to serve the association falls to fewer owners and the financial component is very challenging for smaller associations.

When associations are smaller, owners willing to volunteer might not have time necessary to deal with business matters and issues within the community. Often members lack the applicable professional experience and knowledge with respect to the ownership and management of commonly owned real estate property.

When board members are not familiar with condominium issues, they should be guided by experienced professionals. But property managers generally can't provide full-service management for the fee that a small association can afford. The cost of retaining professionals for fiscal management, legal matters and engineering services is often perceived as being too high for most small associations, so in most cases board members seek those services only when there is a problem that the volunteer board members don't know how to handle. Well-intentioned board members make decisions as they go along since they don't have professional guidance, even on such matters as how to enforce rules. Savvy board members develop relationships with professionals on a limited low-cost basis to prevent small issues from becoming major problems.

Adequate operating cash and building reserve funds are vital for a smaller association. If financial resources are stretched to the max, it can be challenging to accumulate cash when there are unbudgeted non-recurring operating expenses. When condo fee income barely covers essential operating expenses and insurances it is harder to properly operate and maintain the building let alone fund reserve accounts for replacement of association assets or develop a preventive maintenance program.

Associations that don't have adequate cash flow often pay bills late, resulting in late payment fees and interest. They essentially use next month's condo fees to pay last month's bills. Smaller associations typically can't afford to have an owner delinquent or hold out on paying condo fees on time which can be a major drain on association resources.

Spending mistakes affect smaller associations to a greater extent than larger associations. Because of being so cost conscious, oftentimes smaller associations will hire the lowest cost contractors and use less expensive materials. That can result in pool quality, poor workmanship and products that don't last as long in an ocean front environment; subsequently the association will not get good value out of their dollars spent on maintenance and repairs. And because the scope of work is often smaller, there are few, if any price breaks from vendors.

Smaller condominium associations frequently have only one board member authorizing expenses, reviewing bills, and signing checks. There needs to be proper reporting to fellow owners. Providing periodic reports of income and expenses and a balance sheet issued to fellow owners maintains transparency and trust with other owners. Smaller associations typically have no professional oversight of bookkeeping or administrative services, and in most cases, there is no annual audit. The lack of professional handling and oversight of bills and a lack of controls can lead to allegations of lack of transparency even if there is nothing improper. One individual should never assume all roles, even if he or she is dedicated to doing a great job. One person handling fiscal and administrative matters can leave an association vulnerable. Sickness or a move could leave no one to manage the association.

Another common problem at small associations is that it takes seemingly forever to make decisions because many small-association boards solicit input from all owners on major decisions—even if the governing documents don't require them to. The practice of opening decisions to a discussion among all owners is very common at small associations. Everything works fine when everyone is reasonable and has similar financial status, but if even one or more owners have a different financial perspective or are unreasonable, it can get frustrating. Board members in a smaller association can gather input before making a decision but they don't need everyone to agree.

Small associations receive no special considerations under the law. All associations must comply with the applicable state statutes and requirements within the association's governing documents. For example, condominium associations are created by the filing of a certificate of incorporation. An association, even a small one is still a non-profit business. All associations are required to file tax returns. The cost for tax preparation doesn't vary significantly regardless of association size or budget.

Small associations need the same procedures as larger communities, just on a different scale. It may seem easier to manage association business on the fly, but a more formal process can help you stay on the right track. Establish a regular meeting time and record minutes. Develop a budget, a reserve fund, a maintenance schedule, and a list of approved vendors. You'll find that following solid business practices can save you time and prevent issues from falling through the cracks.

One advantage of a small community is neighbors become friends. But this plus can become a disadvantage when it comes to enforcing rules, collecting assessments and handling disputes through alternate dispute resolution. When you start overlooking an owner's rules violations or delinquent assessments, you set your community up for failure. Yet enforcing association rules can create rifts in small communities. A professional community association management company may be able to handle some limited services to keep peace between neighbors.

Condo living is one of the greatest sociological experiments of our time. Run by a handful of volunteer residents who often have little or no experience in finance, maintenance or real estate management, boards are tasked with the welfare of a multi-million-dollar asset. Being aware of the pitfalls in small condo associations can help you navigate them. Just a few tweaks in how you run a small association can make a significant difference in your long-term success.

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