

Options for Keeping Your Community **COMPETITIVE** In the Real Estate Market

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The New Jersey housing market is strong, with community association properties (condominiums and townhouses) being the choice of many buyers. The trend in today's market is toward communities with more amenities and facilities. This is true in mid-rise and high-rise communities, as well as townhouse and single-family homeowner's associations. These amenities and facilities include luxuries such as children's playrooms, pet spas and movie theaters, as well as outdoor facilities like putting greens and barbeque and picnic areas.

As intended by developers of new communities, luxury amenities make them very attractive to new buyers, especially those aimed at specific demographic groups, such as children's play rooms for young couples with growing

families. Amenities and luxury facilities as a sales tool, benefit new communities but can create challenges for existing communities that are trying to stay relevant and compete to attract buyers and keep their property values up.

This article discusses some of the options that existing communities have when competing in this space, including:

- 1) Maintain the community's existing facilities and amenities
- 2) Renovate or replace existing facilities and amenities
- 3) Upgrade existing facilities
- 4) Add new facilities and amenities

In evaluating these options, it is important that the association's board assemble a team of professionals to assist them. This team is likely to include:

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- **PROPERTY MANAGER** The Manager acts as the quarterback for this team, to disseminate the Board's directions to the team and to bring feedback from the team to the Board. The Manager will also be able to advise the Board on what is being offered to prospective buyers at competing communities, including a comparison of monthly fees.
- **REAL ESTATE PROFESSIONAL** A Realtor or Real Estate Appraiser is qualified to help the Board evaluate the impact that choices regarding amenities may have on the value of individual homes in the community.
- **ENGINEER/ARCHITECT** A Professional Engineer or Architect can evaluate the condition of their existing facilities and amenities and estimate costs associated with maintaining, renovating or upgrading existing amenities or adding new facilities. If significant upgrades or addition of facilities are being considered, an Engineer or Architect can advise on design, zoning and code related issues that will impact the project.

- **RESERVE SPECIALIST** This person will often be the Association's Engineer/Architect. Along with the services discussed above, the Reserve Specialist can advise the Board regarding the impact that projects could have on future funding requirements. A Reserve Specialist can also discuss the use of current reserve funds for replacement of existing amenities.

- **ATTORNEY** The Association's Attorney will provide guidance to the Board regarding many aspects of discussions about community amenities, such as limitations on capital expenditures and membership vote requirements imposed by the governing documents. In addition, the Attorney would guide the Board with regard to municipal requirements related to adding or expanding amenities.

Every option for addressing community amenities, as they relate to property values, requires much consideration. The following discussion will help Boards in these considerations:

Option 1) Maintain the community's existing facilities and amenities

The simplest and least expensive way for a community to maximize its existing amenities is typically to keep them



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well maintained and in good working order. This applies to everything from tune-ups of treadmills in the gym to painting walls in the clubhouse or lobby.

Many communities have a deferred maintenance program that will provide schedules for specific maintenance requirements. In addition, property management software can be helpful in identifying maintenance needs. Complaint logs or work order reports can be sorted to identify which amenities generate frequent complaints. This can apply to gym equipment, spas, tennis courts, clubhouse televisions, etc.

It is important for the Board and Management to walk the property on a regular basis with an eye toward the little maintenance items that can

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be easily overlooked. Sometimes having a fresh set of eyes can be helpful in identifying or prioritizing needed maintenance. A manager from another property or a Realtor can be asked to walk the site and provide comments about how the community looks, with specific notes and photographs. This document can be used to develop a maintenance program.

Funding for maintenance typically comes from either a deferred maintenance fund or the operating budget. If a community does not have a deferred maintenance program, they should consider having one prepared. Adequate maintenance funding should be included in the association's operating budget. Money spent on maintenance will typically pay dividends over time by keeping the community more attractive and functional, which will help keep property values up.

Option 2) Renovate or replace existing facilities and amenities

All amenities on a site, including lobby/clubhouse furnishings, pool equipment, pet spa carpet, court surfaces, etc. have a useful life. Once its useful life is reached, the component should be replaced or renovated. If not replaced at the end of its useful life, the component can become non-functional, unreliable and/or unattractive, all of which can impact the value of the units in the community.

The association's Reserve Study will typically include the primary amenities at the site. Communities with

poorly funded Reserves are often forced to postpone replacement of failing amenities. Failing and outdated amenities can degrade property values in a number of ways 1) failing facilities are unattractive to purchasers 2) inadequate reserve funds can be a precursor to special assessments and/or increased maintenance fees, which make a unit less attractive to buyers 3) mortgage lenders are less likely to provide a loan to purchase a property in a community with inadequate reserves.

A community with well-funded Reserves will have adequate resources

"Adequate maintenance funding should be included in the association's operating budget."

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es available to replace or renovate amenities as they reach the end of their useful lives, which will make the units in the community more attractive to buyers.

To help keep a community competitive, the association should maintain an up-to-date reserve study and adequately funded reserve accounts.

Option 3) Upgrade existing facilities

Upgrading existing amenities can maximize the value of existing facilities, while enhancing the community and increasing property values.

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These types of projects can maximize the value of existing facilities. Upgrades can be simple, like adding pickleball lines to existing tennis courts or bigger projects such as replacing

a cracked pool deck with a new stamped concrete deck featuring fire pits and shade structures.

Upgrades are typically incorporated into replacement of components that were included in a Reserve Study. This allows some of the cost of the project to come from reserve funds,

which is another reason to maintain well-funded reserve accounts.

If considering upgrades to an existing amenity, the Board should meet with their Engineer/Architect to develop a preliminary program for the project. This program would include an evaluation of the existing facilities and a list of needs and wishes for the upgrades. Based upon this program, project budgets can be developed.

Consideration of an upgrade project should include discussions with a Real Estate Professional to advise on the potential affect that the project could have on property values in the community. This input will help the Board in deliberations of the project. In addition, the Real Estate Professional's opinion can be helpful in gaining "buy-in" and support for the project from unit owners.

If a board is considering a significant upgrade project, they should consult with the association's Attorney. Some projects may require approval of the membership. Many communities' governing documents put limits on expenditures and require a vote of the membership to spend funds above certain thresholds.

Upgrades to existing amenities can be an effective way to enhance a community and keep it up to date, which helps support property values.

Option 4) Add new facilities and amenities

For a community with few or no amenities, the only option for providing up-to-date facilities may be to add new ones. New amenities could range from adding free Wi-Fi access in the clubhouse or lobby to building a pool. While this can be an oppor-

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tunity to have a big impact, there is a lot to be considered in this approach.

The association should consult with a real estate professional to determine what amenities are in demand in their area and what impact having those amenities might have on property values in the community. Because adding facilities can require major capital investments and incur costs over time, this review should look forward at demand trends for future buyers.

Once the benefit of adding an amenity is evaluated, the next step is to determine the feasibility of adding it to the community. The Association's Engineer, Architect or other relevant consultant can evaluate the existing site conditions, perform preliminary design reviews and develop cost estimates. This preliminary analysis must address all aspects of the project, such as municipal zoning requirements, code compliance, code upgrade requirements that could be triggered and municipal land use ordinance requirements.

"The cost estimates prepared for the project must address current and future costs related to the proposed addition of amenities."

This analysis must also address the time and costs associated pursuing municipal approvals.

The cost estimates prepared for the project must address current and future costs related to the proposed addition of amenities. Using these cost estimates, the Property Manager can prepare conceptual budgets incorporating the proposed new amenities. In addition, management can make recommendations regarding funding for the project, i.e. loans vs special assessments.

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The association's attorney must advise the board about the legal requirements related to adding a new facility to the community. Typically, a membership vote will be required to approve the addition, as well as the funding for the project.

If the board chooses to move forward with adding a new amenity, the next step is to present the idea to the membership. This becomes somewhat of a "sales job", to try to get buy-in and support. One approach is to present the proposed project at an open meeting. At this meeting, each member of the project team presents their analysis and findings. The goal of the meeting is to get accurate information to homeowners so that they can make a well-informed decision. Multiple meetings prior to a membership vote is often required to get the word out to membership.

Existing communities will always have to compete against the latest and greatest offerings in the market. In five or ten years, the members of the communities being built today will ask "How do we compete with the new building down the street?". The boards of all communities will have to keep asking themselves if they are doing adequate maintenance, if they should renovate or upgrade their amenities or if their site needs to add new facilities to stay competitive in the real estate market. ■



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