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LOOKING AT CONDOMINIUM RESERVE ACCOUNTS

Gary A. Kahle

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The Condominium Act (Chapter 718, Florida Statutes) requires a condominium Association to budget reserves for any item for which the deferred maintenance or replacement cost exceeds \$10,000.00. These items include, but are not limited to, roof replacement, repainting, pavement resurfacing, and swimming pool resurfacing. The amount reserved is based upon the estimated life of the item and the cost of the deferred maintenance or replacement. For example, if it is estimated that it will cost \$100,000.00 to replace a roof that has a twenty (20) year life expectancy in a condominium with ten (10) units, the annual roof replacement reserve chargeable to each unit is \$500.00 ($\$100,000 \div 20 \text{ years} \div 10 \text{ units} = \500.00).

Although the condominium association must budget for reserves each year, the unit owners may, by majority rule, waive the collection of the budgeted reserves. If there are no reserves, or inadequate reserves, at the time the replacement or deferred maintenance become necessary, each unit owner will be specifically assessed his pro-rata share of the cost of the replacement or maintenance. In our example if no roof reserves are collected, when it becomes time to replace the roof each unit owner can expect to be assessed \$10,000.00.

In purchasing other than a new condominium unit, then, it is critical that the buyer examine the association budget and learn what reserves, if any, are on deposit. If reserves have not been collected or are less than adequate, a new owner may be unpleasantly surprised to receive a large special assessment for a major replacement or maintenance item shortly after closing on his unit.



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The collected reserve fund becomes more critical the older the condominium unit is and the more time that has passed since the reserve item has been replaced or maintained. In our example, if the unit is 10 years old and the roof has never been replaced the buyer would want to see at least a \$50,000.00 funded roof reserve. On the other hand, if the unit were 19 years old, but the roof had just been replaced the roof reserve is probably not an issue.

Part of what is being bought and sold is the reserve "bank account". A unit in a 10-unit condominium with \$200,000.00 of funded reserves may be worth \$20,000.00 more than a similar unit in a condominium with no reserves. Yet, in most instances, neither buy nor seller consider reserves when establishing or negotiating a sales price.

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