

Solving the HOA Deferred Maintenance Challenge

Strategic Solutions to Reverse the Cycle of Disrepair



By Karen Martinez, CEO and Steve Howe, COO of ASPM-SanDiego. June 8, 2018, *Updated August 2021*. Published and reprinted with permission from the July/August 2018 issue, titled, *The Deferred Maintenance Challenge*, in [Common GroundTM](#) magazine, the flagship publication of [Community Associations Institute](#) (CAI).

DEFERRED MAINTENANCE is the single greatest cause of increased insurance and legal costs, declining property values, and resident complaints. Owners pour dues into their HOAs year after year to preserve and increase return on investment. Instead they find that property values remain flat, even in an upward trending real estate market, when properties defer maintenance.

Condo living is one of the greatest sociological experiments of our time. A handful of residents assume responsible for the welfare of a multi-million-dollar asset. With the best of intentions, they often lack sufficient experience in finance, construction, or

HOA management. The experiment results are in, and HOA boards must become much more savvy in how they manage the decades-old problem.

Board members volunteer for a tough and thankless job. Below are some of the factors that make their task harder than it needs to be.

The Factors Driving Up Cost That Make Us Crazy

After years of deferred maintenance, compounded by tightfisted members' unwillingness to pay higher monthly fees, condominium associations are facing a looming financial crisis, condo experts say.

— Lori Weisberg,
Postponed Repair Work Catching Up with Condos,
San Diego Union Tribune; August 17, 2008

In a San Diego Union Tribune article published almost a decade ago, reporter Lori Weisberg quoted experts who warned (erroneously, in our opinion) that, “After years of deferred maintenance, compounded by tightfisted members’ unwillingness to pay higher monthly fees, condominium associations are facing a looming financial crisis...” Ms. Weisberg’s article alerts the industry to a growing concern. We’ve discovered that, far from tightfisted members being the cause, most residents clamor for boards to address overdue maintenance.

The Banks. National statistics published by the [California Associations Institute](#) for 2016 reflect that roughly 69 million residents poured more than \$88 billion dollars into their HOAs. Some \$25 billion of those dollars were parked in reserve accounts. HOAs are still unable to get in front of maintenance. Despite having billions of dollars in cash reserves, repairs become catastrophically prohibitive.

Aging Properties. Aging San Diego neighborhoods today bear little resemblance to the communities from 45 years ago. HOA properties fall so far behind in maintenance that boards don’t know where to begin to reverse the trend.

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will drag you down on a larger scale. At some point
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The more deferred maintenance there is,
the higher the cost...*

--Beth A. Grimm, an HOA law attorney for over 30 years

Every HOA board is in the crucible of how to keep reserves funded after facing decades of deferred maintenance challenges. Boards avoid unpopular assessments even as increased repair costs grow. Boards responsible for a \$50 million-dollar property often spend less per year on HOA maintenance than an owner of a \$1 million-dollar single-family residence.

Beth A. Grimm, an HOA law attorney for over 30 years, warns that “[A]n association that falls apart at the seams will drag you down on a larger scale. At some point the repairs will need to be made. The more deferred maintenance there is, the higher the cost...”

*HOAs with several years of accrued maintenance...
now require a super manager*

The Board-Manager Conflict. Choosing a management company to manage a multi-million-dollar asset from an unregulated, unlicensed industry takes a leap of faith. This is a daunting, if not dicey, undertaking for boards. Board will either let the manager manage the property or, often, a board will manage the property *around* the manager. Unsurprisingly, the relationship deteriorates until it finally ends, sometimes badly.

Infighting among board members begins with defining the HOA’s priorities, and opinions collide over which options will provide the quickest (read, *convenient*) and least painful (read, *lowest cost*) solutions.

There are three stereotypes serving on most every board. The retiree living on a fixed income at the end of their means can’t afford an extra expense. There is the first-time home buyer who is typically younger and upwardly mobile who wants to increase their investment value. Last is the investor who is renting out their property and doesn’t want to spend monies that reduce rental income.

Anti-spend board members are usually driving the deferred maintenance bus. In fairness, managers who don’t want to do the extra work anyway often encourage this behavior. Smart management companies end a relationship when boards reject professional norms and disregard their HOA’s interests. The anti-spend tactic usually results in an HOA paying higher costs later as repair damage increases over time and solution options diminish.

The *Boards in Denial* vs Homeowner Conflict

Homeowners take a leap of faith as well in electing their board members. Conflict arises when boards don't address maintenance. This behavior reduces quality of life and return on investment. Residents try to manage the board, who then tries to manage the manager. Both residents and board members usually deliver their frustrations on the manager.

Predictably, these conflicts evolve into an *Us vs. Them* mentality that creates adversity and the opportunity for mismanagement. The board circles the wagons once the HOA's options are reduced to obtaining loans and levying assessments. Homeowner pain toward board members who let the problem get so out of control is now delivered to the manager.

Property-Serving Industries. Accrued maintenance impacts law, insurance, banking, construction, reserve funding protocol, and just about every other industry that serves real estate. While not actively exploiting HOAs, they offer no special accommodations to help boards restore the health of their properties.

Construction Award Management. Construction defect awards essentially led to two practices by HOA managers. Managers were put in charge who had little understanding of how to administer these funds or oversee major construction. Alternatively, managers terminated the relationship, leaving the board to fumble through repairs as best they could. After prematurely depleting construction funds, deferred maintenance issues emerged once again, and with increased repair costs.

Partnership Makes or Breaks a Deferred Maintenance Strategy

The HOA Management Industry, the last factor that makes us the most crazy... Managers encouraging boards to save money by not spending thwart an HOA's efforts to achieve fiscal and physical security. While most managers typically lack a construction background or a degree in Economics and Finance, they have enough experience to alert boards when deferred maintenance impacts the health of the community. An HOA manager is obligated to educate boards in balancing maintenance needs against unnecessary reserve funding. They must be willing to part ways with boards who ignore their advice. If boards don't evolve, there's nowhere for the HOA to go but down. Managers who want to avoid blame for a recalcitrant board's bad decisions need to be part of the solution.

Predictably, the no-spend=less-work philosophy has evolved into a whole new business model for some top HOA management companies. Property aging and deterioration begin to create maintenance concerns and the older property contracts are replaced with newer communities. Portfolio restructuring includes adding large, new properties and excludes properties older than fifteen years with maintenance issues.

**“If boards don’t evolve,
there’s nowhere for the HOA
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down...”**

Retaining even a *basic* manager once years of deferred maintenance accrues, properties are in decay, and real estate values tank. Even more

problematic, they now require a *super manager* who has some level of construction expertise *and* creative budgeting skills. A large scale repair project requires an experienced manager with a history of solving deferred maintenance challenges. One with the skills to strategically assess deferred maintenance, then devise an affordable but aggressive plan. Manager and board conflict can arise when the manager attempts to hold the board to a preventive repair regimen. A refreshing development is that more boards are adopting a solution-oriented approach once they are provided with key knowledge about how to reverse the cycle of disrepair.

All other candidates being equal, one Little Italy HOA board focused on reversing its deferred maintenance challenge chose a management company with the resources and experience most likely to help achieve this goal.

The Porto Siena HOA board in Little Italy is a prime example of a board in solution mode. Construction began in 2014 using our administrative [construction management](#) assistance. When the board hired us, they hoped our skill set would improve the odds for success. With a one-time multi-million-dollar construction award, all defects needed resolving.

Complex large-scale repairs require that a manager be knowledgeable across several disciplines. The manager must have the skills to oversee contractor workmanship and that the job finishes on time and within budget. ASPM’s general contractor’s license, strong maintenance approach, and budgeting skills helped us fulfill this need. The board implemented a sustainable maintenance plan to ensure the HOA stayed in top-notch condition after project completion. The Porto Siena board’s teamwork approach was crucial in making our partnership and shared goals successful. See [what they have to say](#) about getting through the project.

HOA Boards Need to Evolve from Pain Mode into Solution Mode

Boards mired in the pain of deferred maintenance tend to overlook the most basic solutions to addressing overdue repairs. A board must first begin administering their HOA away from a reactive stance and into a proactive one. There are strategies boards can adopt that will put an HOA back on the path to fiscal and physical health.

Boards must strive for consensus on HOA priorities. Board members represent the collective interests of all the HOA owners. Board members who can set aside ego and posturing can create a unified plan that increases ROI and improves quality of life. While there may be dissent on how best to achieve objectives, producing results should eliminate most conflict.

Boards must adopt a new approach to funding maintenance and reserves. If a property is not in acute distress, a regular maintenance plan should be part of the HOA's operating budget. According to San Diego Reserve Study Specialist Brian McCaffery of [McCaffery Reserve Consulting](#), there should be a balance between reserve funding and maintenance needs: "While it is ideal for associations to be 100% funded, with a current, accurate reserve study associations can plan for future expenses using a cash flow funding plan and still be fiscally responsible at a level below 100% funded."

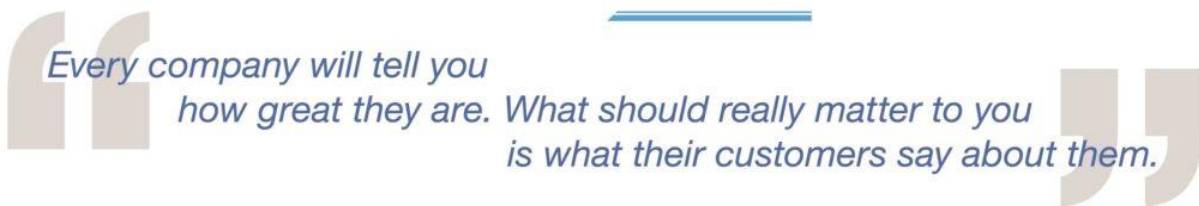


For example, an HOA with fully funded reserves can still allocate painting costs as an operating budget item. Once addressed in the operating budget, painting is no longer a necessary component of reserve funding. Saving funds to spend later is not in the property's best interest as paint begins to fade or peel from age and exposure, leaving a property looking aged and

deteriorated. Why wait to paint? Performing work piecemeal as a budget expense is a more affordable option. Painting then begins again if needed, after the whole property is painted. This keeps the community looking consistently fresh and well-maintained.

Choose an experienced, maintenance-friendly HOA management company. Ensure that the company's skills and types of services offered are commensurate with the HOA's specific needs. The company should have a proven record of success in addressing a deferred maintenance challenge and be able to provide the board with a comprehensive property maintenance evaluation and a scalable budget plan. The company should demonstrate they have adequate resources, detailed tracking and oversight for goals, and accountability standards that meet the HOA's needs.

Finally, it's important to gauge how well a management company performs by comparing its online customer reviews with those of competitors. Be sure to read company responses to complaints. Are responses fact-based, or do they merely pay lip service?



Compare candidate pricing after narrowing the search to two or three companies. Lower cost companies often charge less because they lack the resources or skills needed to meet an HOA's needs. Be discerning about what you're told versus what you're able to see. Particularly when deferred maintenance is a challenge, ensure the company has a history of success in meeting additional HOA needs. Like any other industry, higher quality service and additional services will cost more.

Industry-wide Changes Can Help HOA's Solve Deferred Maintenance

Much more can be done by property vendors to improve the way they serve HOA communities.

All HOA industry partners agree that deferred maintenance is a big problem. Industry-wide solution begins with enacting legislation and enforcing regulations. Requiring professional licensing to standardize practices and protect the integrity of the HOA management industry is a good first step. Continuing education falls short of legal standards and legislation that can hold HOA management accountable for the quality of services provided.

Banks could more favorably treat HOAs that save reserve monies. HOAs can rely on more heavily funded operating budgets and avoid penalties banks charge through

higher interest loan rates. Insurance company incentivized programs could encourage HOAs to maintain properties. This makes sense when an HOA rectifies conditions posing safety hazards that potentially save thousands of dollars in insurance payouts.

Legislators, property related industries, and HOA boards need to accept that deferred maintenance is a systemic problem. Changing our approach to how we problem-solve can be difficult, but it's a goal worthy of our collective efforts.

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