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COMMUNITY LIVING

A new year, new demands

Associations need to hang tough to weather future

By Pamela Dittmer McKuen

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One year closes, another year begins. For community associations and their residents, 2009 will bring new challenges and tough decisions. What's ahead? Take a peek into the crystal balls of some industry insiders:

Budget woes. Associations are being hammered by delinquencies, foreclosures and bankruptcies, all of which translate to lost assessments. Operating budgets are pared, and reserves are tapped prematurely.

"If a roofing job can be put off one more year, boards are doing it," said Marcia Caruso, president of Caruso Management Group in Naperville. "All the pretties—the streetscapes, new carpeting, paint—are being put off. And now, with all the snow we've had, if they have to dip into their reserves to pay for that, something else will get pushed behind. It's the worst I've seen in the 37 years I've been in this business."

"They can pass a special assessment or increase their regular assessments, and then more people can't afford the payments and they go into delinquency," said association attorney Charles VanderVennet of Arlington Heights.

Hanging tough. With cash flows turning to trickles, associations need to be proactive in getting the money they are owed. Adhere to your collection policy and pursue legal avenues such as eviction and super-lien status, said VanderVennet.

If you don't have a collection policy, make it your New Year's resolution to develop one, he said.



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"Ultimately, the association has to be less neighborly, if you will, and more business-like," he said.

"These are not times to be swayed by sob stories, allow leniency or be fearful of hurting a fellow neighbor," said association consultant Angela Falzone of Association Advocates Inc. in Chicago and Park Ridge. "The survival of the association may be at stake, literally."

Condo buying, made harder. Whether you're shopping for a brand new building or an established association, the easy money is gone, said mortgage broker Ken Perlmutter, president of Perl Mortgage in Chicago.

Generally speaking, lenders are requiring more verification of buyers' income and credit, and bigger down payments. With new construction, they want to see more presales before they'll close. FHA-backed loans are popular again because of the low down payment requirement, but can't be used to buy into an association that has the right of first refusal.

The easiest deals to put together are those with 20 percent or more down for a unit in an existing association, he said.

More developer problems. The thrill of homeownership quickly turns to dismay when new buyers discover they bought shoddy workmanship. In the worst cases, developers go bankrupt and the remaining construction stops.

"There is little oversight to protect this from happening," said Shirley Feldmann, president of Association Advocates. "Many associations will have to pay out of their pocket to correct developer deficiencies."

Rental policies. Many associations in recent years spent long hours and big bucks to restrict or ban rental units. With today's high foreclosure rates and lost assessments, they need to take a second look. Feldman advises associations to make exceptions for hardship cases.

"Allowing an owner to rent the property is better than having that unit go into foreclosure during this very tough housing crisis," she said.

Poor leadership. The number of associations has grown rapidly, much faster than the number of experienced board members and managers needed to run them, said Feldmann.

"Many managers are just thrown into the job or they are managing upwards of 15-plus properties, so things fall through the cracks," she said. "Often a board has a false impression that, if they have a management company, they don't have to pay attention to what is being done. Wrong!"

Associations also must protect their money from dishonest managers, said Caruso, who advocates manager licensing.

"They need to have really good audits every year to certify and guarantee their funds are safe," she said.

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