

RESERVE STUDIES - A MUST FOR HOAS

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At a recent HOA industry conference, the presenter on the topic of Reserve studies did a quick survey before he commenced his presentation.

Questions 1: Who present has done a Reserve study in the last three to five years? Maybe a dozen of the delegates raised their hands.

Questions 2: Who made use of specialists / independents when the Reserve study was done? Only a handful of delegates raised their hands. This was at a conference at which over 120 delegates were present, representing the leading HOAs in South Africa.

A week prior to the conference, I attended an AGM where the directors tabled a motion to change the HOA's MOI. They proposed a buy-in levy of one percent on house sales as they wished to strengthen the HOA's Reserve Fund. The HOA had no updated Reserve study as a reference point and were therefore unable to clarify the reserve funds required for the HOA. The debate quickly disintegrated into "directors vs members" battle and, needless to say, it was voted down.

The above-mentioned experience highlights the lack of regard for the importance, understanding and even reluctance of HOAs to undertake a Reserve study. Most HOAs are still of the view that three months' operating expenses are enough for a Reserve fund.

Reserve studies are not just done to enhance property values and minimize special



levies. They play a very important role as a budget and planning tool for an HOA in order to plan well in advance to ensure that sufficient funds are available for asset replacement and new projects.

A very easy reference point is the current state of local authorities in South Africa. Report after report clearly show their massive backlogs, zero planning and no investment in infrastructure and future projects. HOAs, often referred as the fourth level of governance in South Africa, are no different. The maturing of Estates (dating from the property boom 15 to 20 years ago) and aging infrastructure require major investments. Without a Reserve study to determine the Reserve fund, special levies and poor service delivery will become the norm for HOAs.

Internationally, Reserve studies and Reserve funding are a major component of an HOA's responsibility and in several states in the USA it is a requirement that HOAs must have an up-to-date Reserve Study.

If the Directors and Management of HOAs are serious about fulfilling their fiduciary duty, duty of care and loyalty, and act in the best interests of their members, they will ensure that the implementation of a Reserve study is their #1 priority.

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