



REAL TALK FOR Reserves

Your Guide to Explaining One of the Most Important HOA Metrics to Your Clients

HOA reserves are funds that a homeowners association sets aside each year to pay for major repairs and replacements of common property including pools, landscaping, and parking lots. Think of them as a “rainy day fund” for the community.

Without adequate reserves, the HOA would need to impose special assessments on homeowners to cover unexpected costs—which can be expensive and disruptive.

What Are Reserves?

HOA reserves are funds that a homeowners association sets aside each year to pay for major repairs and replacements of common property. Think of them as a “rainy day fund” for the community.

Common items funded by reserves include:

- | | |
|--|---|
| ☐ Roof replacement | ☐ Siding or structural repairs |
| ☐ Parking lot resurfacing or repair | ☐ Fence replacement |
| ☐ Exterior painting | ☐ Common area landscaping overhauls |
| ☐ HVAC system replacement | ☐ Elevator maintenance and repair |
| ☐ Pool equipment and repairs | ☐ Plumbing or electrical system upgrades |

HOW RESERVES WORK

Each month, the HOA collects a portion of homeowners’ monthly assessments and deposits it into a reserve account. This money sits in the account until a major repair or replacement is needed. Without adequate reserves, the HOA would need to impose special assessments on homeowners to cover unexpected costs—which can be expensive and disruptive.

RESERVES IN ACTION

A community’s roof needs replacement in 5 years at a cost of \$500,000. If the HOA has been setting aside \$8,000 per month in reserves, they’ll have \$480,000 saved when the time comes. If reserves are underfunded, homeowners might face a special assessment of \$5,000-\$10,000 per unit to cover the shortfall.



What is the Law?

Reserve requirements vary significantly by state. There is no federal law governing HOA reserves—each state sets its own rules.

KEY POINTS ABOUT RESERVE LAWS

STATE-BY-STATE VARIATION

Some states require HOAs to maintain reserves at a specific funding level (typically 70-100%). Others require only that reserves be studied and disclosed. A few states have minimal reserve requirements.

Utah requires HOAs to conduct reserve studies and disclose reserve funding status to prospective buyers.



WHAT YOUR STATE REQUIRES

As a Realtor, you should know your state's specific reserve requirements. This information is typically available through:

- ☐ Your state's HOA regulatory agency
- ☐ Your state's real estate commission
- ☐ Your local Realtor association
- ☐ The HOA's management company

DISCLOSURE REQUIREMENTS

Most states require HOAs to disclose their reserve funding status to prospective buyers. This is typically done through:

- ☐ **Disclosure Packets:** Information provided to buyers before they make an offer.
- ☐ **Reserve Study:** A professional assessment of the community's major components and their remaining useful life.

WHAT'S YOUR ROLE?

Ensure your clients receive and review these documents before making an offer. If the HOA doesn't provide them, this is a red flag.

What is Healthy?

A healthy reserve fund is one that is adequately funded to cover major repairs and replacements without requiring special assessments.

THE INDUSTRY STANDARD: 70-100% FUNDING

Most HOA professionals recommend that reserves be funded at 70-100% of the fully funded reserve balance. This means:

- ☐ **70% Funded:** The HOA has set aside 70% of what it would need to fully replace all major components today.
- ☐ **100% Funded:** The HOA has set aside enough to fully replace all the major components today.

FUNDING LEVEL	WHAT IT MEANS	RISK LEVEL
90-100%	Excellent. The HOA is well-prepared for all major repairs.	LOW
70-89%	Good. The HOA is adequately funded and on track.	LOW TO MODERATE
50-69%	Concerning. Ask the HOA why this is the case. They may need special assessments in the future.	MODERATE TO HIGH
BELOW 50%	Poor. Ask the HOA why this is the case. Special assessments are likely.	HIGH

RED FLAGS

☐ **Rapidly Declining Reserves**

If reserves are dropping year-over-year without explanation, major expenses may be coming.

☐ **Underfunded & Aging Components**

If reserves are below 50% funded AND the roof, parking lot, or other major systems are 15+ years old, expect special assessments soon.

☐ **No Reserve Study**

If the HOA hasn't commissioned a professional reserve study, you can't accurately assess the community's financial health.

☐ **Vague Reserve Information**

If the HOA can't clearly explain its reserve funding level or strategy, this is a warning sign for your client.

Why are Reserves Needed?

Reserves are essential for protecting your clients' investment and ensuring the long-term stability of the community. Here's why:

PROTECTS PROPERTY VALUES

A well-maintained community with adequate reserves maintains and appreciates in value. Communities with deferred maintenance and underfunded reserves often see property values decline. Your clients' home is likely their largest investment—reserves help protect it.

PREVENTS SPECIAL ASSESSMENTS

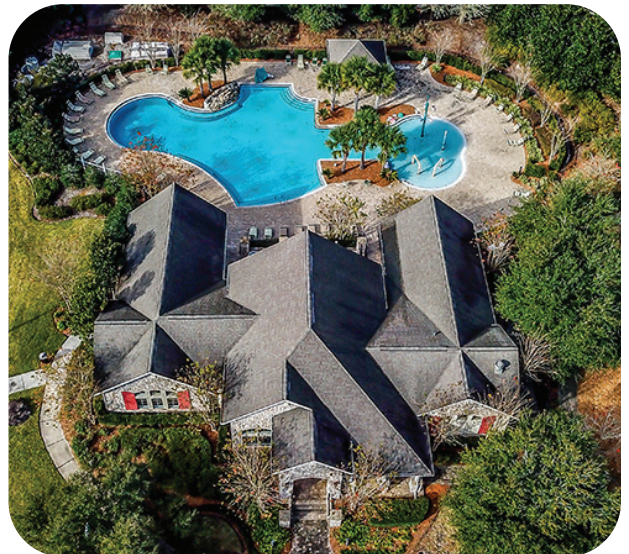
Without adequate reserves, the HOA must impose special assessments when major repairs are needed. A single special assessment can cost homeowners \$5,000-\$20,000 or more. Adequate reserves eliminate or minimize these surprise costs.

ENSURES COMMUNITY STABILITY

Communities with underfunded reserves often experience financial stress, delinquencies, and conflict. Residents may stop paying assessments if they're hit with large special assessments. This creates a downward spiral of financial problems.

MAINTAINS AMENITIES AND SAFETY

Reserves fund critical repairs that keep the community safe and attractive. A roof that isn't replaced becomes a liability. A parking lot that isn't maintained becomes a safety hazard. Reserves ensure these essential systems are maintained.



PROVIDES PREDICTABILITY

When reserves are adequate, homeowners can predict their costs. They know their monthly assessment covers ongoing maintenance and future major repairs. This predictability is valuable for budgeting and financial planning.

ATTRACTS BUYERS & LENDERS

Lenders often require that HOAs maintain adequate reserves before approving mortgages. Buyers are more confident purchasing in communities with strong reserves. This means better resale potential for your clients.

How You Can Help Your Clients

As a Realtor, you play a critical role in helping your clients understand reserves and make informed decisions. Here's how:

REQUEST AND REVIEW RESERVE DOCUMENTS

BEFORE YOUR CLIENTS MAKE AN OFFER:

- ☐ Request all available documents
- ☐ Request the most recent reserve study on file
- ☐ Request the HOA's annual budget and financial statements
- ☐ Review the community's reserve funding percentage

WHAT TO LOOK FOR:

- ☐ Is the reserve funding level disclosed clearly?
- ☐ Is there a professional reserve study on file?
- ☐ Are reserves trending up, down, or are they stable?
- ☐ Are there any planned special assessments?

EXPLAIN RESERVES IN PLAIN LANGUAGE

Your clients may not understand reserve funding percentages or fully funded reserve balances. Help them understand by using simple examples:

"The HOA's roof will need replacement in 8 years at a cost of \$400,000. The HOA is currently 75% funded, which means they have \$300,000 set aside. When the roof needs replacement, they'll have the money to pay for it without asking you for a special assessment."

CONNECT RESERVES TO MONTHLY COSTS

Help your clients understand that a portion of their monthly HOA assessment goes toward reserves. This is money well spent:

"Your monthly assessment is \$300. About \$80 of that goes into reserves each month. That means the HOA is setting aside \$960 per year for future repairs. This protects your investment and prevents surprise special assessments."

IDENTIFY RED FLAGS

If reserves are underfunded or declining, help your clients understand the implications:

- ☐ **Underfunded reserves:** *"This community's reserves are only 40% funded. That means special assessments are likely in the next 3-5 years. If you move forward with this home, you should budget for this possibility."*
- ☐ **Declining reserves:** *"The HOA's reserves have dropped 15% in the past year. This could mean major expenses are coming, or the HOA is facing financial stress."*
- ☐ **No reserve study:** *"The HOA doesn't have a professional reserve study. This is a red flag. We should ask the HOA to provide one before you make an offer."*

ENCOURAGE PROFESSIONAL REVIEW

Recommend that your clients have their attorney or a professional HOA consultant review the reserve documents. This is especially important for:

- ☐ Underfunded reserves
- ☐ Communities with aging major systems
- ☐ Communities with declining reserves
- ☐ Communities that do not have a recent reserve study

USE RESERVES AS A NEGOTIATION TOOL

If a community has underfunded reserves or pending special assessments, you can use this information in negotiations:

- ☐ Request a credit or price reduction to account for future special assessments
- ☐ Ask the seller to disclose known special assessments
- ☐ Request that the HOA provide a detailed timeline for major repairs

FOLLOW UP AFTER PURCHASE

After your clients purchase their new home, help them stay informed about the community's financial health:

- ☐ Encourage them to attend HOA meetings
- ☐ Help them understand the annual budget
- ☐ Alert them to any planned special assessments
- ☐ Recommend they review the community reserve funding annually

QUESTIONS TO ASK THE HOA

When evaluating a community, ask the HOA these reserve-related questions:

What is the current reserve fund percentage?

When was the last reserve study conducted?

Are there any planned special assessments in the next 5 years?

What major systems are approaching the end of their useful life?

How has the reserve funding level changed over the past 3 years?

What is the HOA's reserve funding policy?

Are there any pending repairs or replacements that will impact reserves?

How is the reserve account invested, and what is the expected return?

Key Takeaways

- Reserves are essential. They protect property values and prevent surprise special assessments.
- Healthy reserves are 70-100% funded. This means the HOA is prepared for major repairs.
- Underfunded reserves are a red flag. They indicate future special assessments or deferred maintenance.
- Review reserves before making an offer. Request the Resale Certificate and reserve study.
- Reserves are part of the monthly assessment. A portion of the HOA fee goes toward future repairs.
- Adequate reserves attract buyers and lenders. Communities with strong reserves have better resale potential.
- Ask questions. If the HOA can't clearly explain its reserves, that's a warning.

Pro Tip For Your Clients

RESERVES ARE ONE OF THE MOST IMPORTANT INDICATORS OF AN HOA'S FINANCIAL HEALTH.

By understanding reserves and helping your clients evaluate them, you're providing invaluable guidance that protects their investment and ensures they make informed decisions. A community with adequate reserves is a community where your clients can buy with confidence.

Further Questions? Reach Out.



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