

Hidden Factors Influence Fees and Rents

For seniors that are contemplating downsizing to a rental apartment, town-home association, condominium, or senior housing cooperative it is important to know what to budget for monthly fees or rent. In the decision process consider the following points.

Cost Per Square Foot

The common denominator when comparing fees and rents is the cost per square foot of living space. To calculate the price per square foot, divide the monthly rent or fee by the square feet of the unit. Most likely the cost per square foot for a comparable rental will exceed a coop home. A coop home fee does not include a need to make a profit, which allows for a lower fee per square foot. Coop home condominiums also tend to have more square feet. When you divide the monthly fee by the square feet the costs per square foot is generally less.

Replacement Reserve Fund

When considering buying a condominium or association townhome it is wise to ask about the status of the replacement reserve fund. The replacement reserve fund is collected from fees to pay for major expenses as the complex ages. If the replacement reserve fund is inadequate the possibilities of special assessments become real. The U.S. Department of Housing and Urban Development recommends that at least \$1,000 per year per condominium unit be kept in a replacement reserve fund. A large assessment for major repairs eliminates the value of a lower monthly fee.

General Operating Reserve Fund

A general operating reserve fund is required by lenders for any homeowner's association. The purpose of the general operating fund is to assist the association should a member/s default on payments. It is recommended that the association have three to six months of operating expenses in the general operating reserve fund in event of an economic downturn. An inadequate general operating reserve fund could result in a special assessment for members of the association.

Operating Account

The operating account is the fund used by the association to receive fees to pay obligations of the association. The management of the operating account should have safeguards to protect the members of the association from embezzlement. Associations that do not include in their fee costs for a management company are at risk. Again, sometimes a lower fee can result in an assessment for members when safeguards are not in place.

Property Insurance Escrow

A property insurance escrow is usually part of the association fee. It is used to cover the annual premium on a property insurance policy. It is important to know that fees collected for property insurance is paying for a policy that does not require a large deductible in an act of God event. If it has a large deductible members could be assessed to pay the deductible.

Property Tax Escrow

The association fee or rent must include funds to pay for property taxes. The history of property taxes is that they go up and never go down. One issue with newer complexes, rental or owner occupied, is the future tax assessments. Often new apartment complexes will offer special move in rates which the owner may underestimate property taxes. This can lead to a surprise jump in rental rates or fees after one year. If the increase for rent is too large the renter is faced with finding a new apartment and the costs of moving.

Conclusion

It is important to understand what the monthly fee covers and when a fee is artificially low. When fees are not commensurate with future costs it is not wise to skimp on paying an adequate monthly fee. [Read More](#)