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As Dues Dry Up, The Neighbors Pay

By STEPHANIE CHEN
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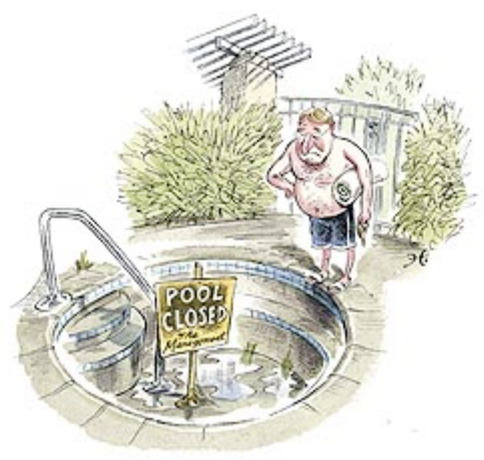
Here's another consequence of the troubled housing market: Some homeowners associations are running low on cash.

The association at Monaco Place, a community of single-family homes and condominiums in Denver, is short $250,000 of its $9.3 million annual operating budget. It can't pay for needed roof and siding repairs to homes. Potholes in the streets haven't been filled in order to save money to keep electricity running in common areas, says Dee Tyler, CEO of Colorado Association Services, which manages the association. Monaco Place was already suffering from a high rate of foreclosures before the credit crunch hit. In the past three years, about a third of its 193 units have been foreclosed on.



Like Monaco Place, a growing number of homeowner and condominium associations across the country are raising their fees or putting the brakes on clubhouse improvements, new landscaping and other shared neighborhood amenities. The kitty is so low for some that essential services, such as building maintenance, electricity, trash removal and repairs have been cut.

As community residents lose their homes to foreclosure and new home building has slowed considerably, many of the roughly 300,000 neighborhood associations in the U.S. are grappling with shrunken budgets. One estimate puts the delinquency rate on dues at less than 5% in many markets -- higher than normal, though still not enough to threaten basic services, says John Carona, president of Associa, a Dallas-based company that represents 7,000 community associations in 26 states. Normally, the delinquency rate is about 2%, he says.

Elsewhere, the rate is much higher. At Spanos Park East in Stockton, Calif., owners of about 25% of the development's 1,500 single-family homes have been delinquent in paying their quarterly dues, according to Adrianne Bretao, a manager at M&C Associations Management Services, which helps to manage the community association. As a result, the association has put off expanding a patio area in the clubhouse and swimming pool this year, says Denise Laven, the association's president.

"It's frustrating," Mrs. Laven says. "We're seeing the people not paying the fees, so we know it's our money that has to pay for everything. And our dues will go up next year because we set them annually."

Residents on the Board

Often, the people behind the decisions to cut services are the homeowners themselves, since community-association boards are usually composed of members elected from the building or neighborhood. (Developers usually serve as the association board until the project is complete.) Some boards will also hire a third-party management company or accounting service to ensure general upkeep of the area and manage the budget.

GOVERNING BODIES

A look at homeowners associations in the U.S.:

- There are currently about 300,800 communities covered by an association -- an estimated 59.5 million residents.
- The total annual operating revenue for associations is more than $41 billion.
- More than 1.7 million people serve on an association board.

Source: Community Associations Institute

Rules on fees and services are outlined in association bylaws, and some states have laws that cover governance of the associations. So individual homeowners often have little power to fight increases in dues and cuts in services -- as long as the board is following the rules. They also have little recourse against delinquent neighbors other than filing lawsuits, which can be costly and time-consuming.

That's why housing experts advise homeowners to read the bylaws thoroughly, asking what services are guaranteed and whether annual fees are capped. Still, since bylaws were drafted when the community was first built, few outline contingencies in the event of a wave of foreclosures.

Eric Glazer, an attorney at Glazer & Associates P.A., in Hallandale, Fla., says nearly all of the 200 condominium associations his firm represents in South Florida are short of revenue due to delinquent association fees. Five years ago, those associations grappled with only a handful of nonpaying residents, he says.

Stephanie Chen

The Ebenezer Farm development in Marietta, Ga., a suburb of Atlanta, has empty lots and half-finished homes.

Mr. Glazer and other housing experts say a growing number of banks aren't paying association dues on properties on which they have foreclosed and now own.

Colin Hendrick, president of the Carlisle on the Ocean Condominium Units Association Inc. in Surfside, Fla., has filed six lawsuits since December against banks that failed to pay dues on foreclosed units.

One of those banks, Minneapolis-based **U.S. Bancorp**, says it isn't responsible for the assessment fees, saying that they are merely the trustees of the property and that the service agent is responsible for the payments. But Florida lawyers say that since the bank is the ultimate owner, it should have to pay.

So far, no overdue fees have been recovered as a result of the lawsuits. With 20 of the development's 115 luxury condominium units in foreclosure and an additional 35 units either behind on their fees or not paying them at all, the association says, it had no choice but to jack up fees 10% to $470 a month.

A Halt on Amenities

"The good owners are left carrying the baby," Mr. Hendrick says.

That's what happened to Krissy Longyear and her husband in an affluent suburb of Atlanta, where construction of new homes has stalled dramatically. A year after they moved into a custom-built, two-story brick house, the couple saw their homeowners' association fee jump 27% to $635 a year. Meanwhile, the developer has put a halt on promised amenities, such as street signs and a walking trail around the community lake.

"We aren't getting any more for the extra money we're paying," she says. "It's disheartening that we spent all this money and time. Maybe we made a mistake."

The tough economy is hurting associations even in areas where the housing market has been relatively stable. Rob Rosenberg, president of Massingham & Associates Management Inc. in Hayward, Calif., says 90% of the 350 home associations managed by his company in the Bay area of California are seeing a rise in the number of residents who pay their dues late or not at all. Some of the associations are toughening their payment policies by sending out more reminder letters, and many will have to start cutting amenities or services after another six months if they don't start collecting more fees, Mr. Rosenberg says.

Craig Koss, president of Kramer-Triad Management Group LLC in Ann Arbor, Mich., says he advised his 300 local homeowner associations to cushion their budgets with additional dollars in anticipation of the heavy foreclosures last year, but only about 25% of the associations did so. He says fiscally responsible associations will keep reserve funds, but in most states, there is not a state agency to oversee the associations to ensure that reserve funds are set up. "A lot of people won't plan until they have to," he says. "They won't have a rainy day fund until it's pouring."

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