WHAT'S NEW?

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What's in the News?

Featured Article: New Revenue Sources for HOAs? –pg. 1
FREE - Online Seminars –pg. 2
Home Savings Store –pg. 2
Contact Information –pg. 2
Home Appliances & Cabinets –pg. 2
FREE Subscription –pg. 2

Featured Article: New Revenue Sources for HOAs?

by Gene Sullivan, President of New Concepts Management.

Most folks are pretty resilient and resourceful when they need to be. With an economy and job market that continues to stall, many folks facing cut backs on work hours find another job, or if they have lost one good paying job, work two lower paying jobs. We just seem to do what we need to, in order to get by.


Gene Sullivan, President of New Concepts Management.

It stands to reason the same thinking would work its way over to homeowner associations.

Receiving revenue other than from homeowner assessments is not a new idea. Some high rise associations have found themselves sought out by cell phone providers in recent years in order to install antennas on the top of their buildings. These associations enjoy a steady "antenna rental" income to help offset the need to raise homeowner assessments.

What has been in the past a lucky "windfall" in additional revenue for an association, is now becoming an active pursuit by many boards for other possible revenue sources in fine entrepreneurial fashion. Many HOA boards are now claiming thousands of extra dollars in their HOA coffers. In New York they call this the 'monetizing of dead space'.

Monetizing Dead Space
Just recently, a Sixth Avenue Condo Association found that when their neighboring building was razed, the result was a newly exposed exterior wall to the street traffic below, and an opportunity was born. The association agreed to sell that space to advertisers resulting in an additional $40,000.00 a year in revenue.

While it certainly seems like a "no-brainer" for a board to relieve the stress from increased vendor/ service expenses and the rise of homeowner foreclosures by adding these additional revenue enhancers; there are times when a board may find that they have stepped across a line, causing a whole series of unintended consequences that could in the long run actually hurt the association instead of help.

Association Developer
Another board in New York recently got together and asked the question "Do we have any dead space to sell?" And after asking that question, answered yes, we have space on the top of our building!

When interviewed, this 62 unit co-op association stated "We analyzed it, and we hired a good architect, and we went through the process and said 'What if we put in roof decks that we can turn around and sell?'"

This association moved forward with the creation of 13 private roof decks priced at $300 per square foot. The sale of 6 of those 13 decks have resulted in the association almost coming now to their break even point, with the hopes of now finally being able to see additional revenue to the association as more decks sell.

The Law of Unintended Consequences
In their rush for additional income, some boards may find themselves to be "too smart by half" and not only find their association in worse financial standing, but may also open themselves up to needless litigation. How could this happen you ask?

Homeowner associations are given a special designation as a "non-profit corporation" by the State where they reside for very good and specific reasons. As a non-profit organization they are charged with the single purpose of taking in only the money they need in order to fund the operation of the property or entity. Associations are not allowed to make a "profit."

Now occasionally, an association will find that they have an overage from one year to another. When this happens, most States will allow a board to do one of two things; they can either designate that money as fund for their capital replacement reserves (if they are not fully funded – so in most cases not an issue for the average HOA) or they may return the overage to its members either by refunding the money or by carrying forward the excess funds to the next fiscal year.

Loss of Non-profit Status
When an association finds that they have just a small overage in any one given year, it probably isn't going to be the end of the world or noticed by any one when that money is simply brought over into the association's budget for the following year. However, if large sums of money are being made because of a board actively looking for new revenue, or is continually being made above the association's projected budget, it could flag the State in asking the question "Is this particular entity truly a non-profit organization?" The removal of "non-profit" status to an association could be huge in extra costs because of now being taxed on all revenue coming in, including all of the monthly dues paid by the members.

Exposure to Litigation
These are words an HOA board never wants to hear. Unfortunately, the rise of needless

continued on page 2

Featured Article:
New Revenue Sources for HOAs?

continued from page 1

lawsuits and arbitration are very real concerns for anyone serving on a board these days. According to the Nevada Office of Ombudsman for Homeowner Associations, more than 85% of all litigation brought up is determined a needless matter that has no merit. Because it is my belief that most associations are run by good folks, with good intentions, I think you will find the numbers listed in Nevada to be true everywhere. A majority of litigation is found to have no merit. But even so, can take up a lot of time and resources for an association, board, and their management company.

Let's look once again at the example above of the "very good idea" of the association that became developer and built roof top decks that they are now going to "sell" to the other owners in the association. If the project goes well (and I hope it does) they will have made money in hopes of defraying future costs for their members in the operation of their building.

But what if it doesn't go well? Will members now look to this same board and say "Why did you squander our capital replacement fund for the speculative building of those roof decks?" If not enough people buy them, and with their reserves depleted even more as a result of this addition, what will that mean now in further special assessments in order to get necessary items replaced, let alone the creation of new elements?

Caution is Key

Should an association therefore never look at these opportunities for other income? No. That is not what I want to convey. In cases where those revenue opportunities come to you as a board, it is possible to craft an agreement that helps in defraying members costs, and allow for a replacement fund to increase while protecting the association's risk.

However, an association board ought to be very careful in understanding their charter and obligation both as a non-profit organization, and in their fiduciary responsibilities to their members. It is when that "idea" fails to protect the association's funds or liability, that one should be concerned. ■

Free On Line Seminars – For September & October!

Classes run between 30-60 minutes. You can register anytime right up to the start of any seminar by going to HYPERLINK "http://www.webinar.com" www.webinar.com and click on the "join webinar" button. You will be guided through the registration process. To register you will need to supply your e-mail address and identify the seminar you wish to join by typing in the 9 digit I.D. # assigned to each class below. Here are our upcoming offerings:

"The Pros & Cons of Rental Housing" – Thurs. Sept. 15, 2011 from 7-8 p.m. I.D. #287479654. Is it true that a renter never cares for a property like a homeowner? Could banning rentals ever be detrimental the operation of the association? DO you have rental polices that prevent others from getting a mortgage? – Instructor Toni Crockett, Vice President of Rental Services for New Concepts Management.

""HOA Legislative Update" – Wed. Sept. 28, 2011 from 7-8 p.m. I.D. #186301438. It seems like the legislature is always tinkering with this thing called a Homeowner's Association. Deadlines placed last year are fast approaching between now and the end of the year. A re-cap of what every homeowner and board member should know before the close of 2011. – Instructor Paul Roth, Executive Vice President of New Concepts Management.

"Ethical Challenges Facing the Board Today" – Tues. Oct. 11, 2011 from 7-8 p.m. I.D. #333254038. Serving on any homeowner board carries with it a large responsibility. Learn how to avoid the "little" compromises that can end up being the big issues later. What are the best policies that every HOA board should be practicing? – Instructor Gene Sullivan, President of New Concepts Management.

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Home Savings Store – Resources, products and services available at special pricing for our homeowners and subscribers.

To take part in any of these specific offerings, please contact our Home Savings Store Coordinator **Courtney Sletten** at **952-224-2663** and ask her for full details.

Home Appliances & Cabinets

We are happy to add to our list of preferred vendor relationships – All Inc. Everything you need in appliances, cabinet and counter top refinishing and/ or replacement and all at prices that can't be beat. Call Coordinator **Courtney Sletten** at **952-224-2663** in order to receive the New Concepts special pricing.

Home Maintenance

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Mortgage Network

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Preferred Realtor Network

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Rental Management Services

Your preference was to sell, but your home isn't moving. That new job is calling, and you don't want to walk away from your equity. What do you do? Call New Concepts. We can give you peace of mind knowing your property is being watched closely, and the renters aren't getting you in hot water with the Board or your neighbors.

Free Subscription

If you are receiving this newsletter for the first time and would like to start receiving this free publication, or would like to know more about any of the services offered by New Concepts Management – give us a call at **952-922-2500** and ask for **Courtney**. ■