

What to know before you buy a condo

By [Polyana da Costa](#) • Bankrate.com

- Think like a businessperson and do due diligence on the condo association.
- A high delinquency rate can torpedo the ability to get a loan.
- Watch out to make sure the condo is sufficiently insured.

In a market flooded with condos for sale at bargain prices, buyers can find once-in-a-lifetime deals. But they can also find trouble -- if they don't ask the right questions.

With so many condominium properties plagued by foreclosures and delinquencies, buyers need to do their homework if they don't want to watch their dream condo turn into a nightmare, says Donna Berger, executive director of the Community Advocacy Network in Fort Lauderdale, Fla.

"Ideally you want to buy into a stable, well-run community," she says. "If there are issues, it's not a flat-out no. If the price is a steal, it may still be a good investment, but you want to make an informed choice."

Berger is an attorney who specializes in community association issues. She sees firsthand how the condo craze that took place in Florida and other parts of the nation left many condo communities hurting. In some Florida cities, condos that once sold for \$200,000 now sell for \$30,000. In Las Vegas and certain areas in California, condos that once cost \$500,000 are now offered for \$150,000. Nationwide, condo prices fell about 25 percent since 2005, according to the National Association of Realtors.

Think like a businessperson

Some of these deals are tempting, but buyers need to think of purchasing a condo as signing a business agreement with all others who own in the project they are buying into, says New York attorney Rafael Castellanos. And as with any other business venture, learn how the place is managed and inquire about its financial stability.

"Especially in this economy, you really have to be very careful," he says. "Don't be emotional about it."

Ask for a budget

"Most condo buyers don't think of it, but you need to ask for a copy of the association's budget," Berger says.

The association is not likely to give buyers a copy of the budget, but the seller -- as an owner -- can request a copy and provide it to the potential buyer.

The most important parts of that budget include the total amount of outstanding debt owed to the association and the percentage of owners who are not paying their dues.

Why delinquencies matter

Buyers have little chances of getting a mortgage to buy a unit in a building with a high percentage of owners that are delinquent on dues. Fannie Mae, Freddie Mac and the Federal Housing Administration, which buy or insure most mortgages, do not approve condos with delinquency rates higher than 15 percent. Units in buildings that don't meet that requirement are not eligible for financing backed by the three agencies, making it extremely challenging for a buyer to obtain a mortgage to buy the unit or an owner to refinance a unit in those buildings, says Orest Tomaselli, CEO of National Condo Advisors in White Plains, N.Y. The company assists condominium projects nationwide in obtaining FHA and Fannie approval.

For those who have cash to purchase and don't plan on selling the unit anytime soon, the delinquency rate may not seem as big of a problem. But keep in mind when an association is short of cash, it has to cut on maintenance services or amenities.

"Depending on how long the high delinquency has been in place, that beautiful pool may not stay beautiful for very long," Berger says.

Some associations also may charge unit owners special assessment fees to make up for the budget shortfall.

Reserves

The less cash reserves a condo association has and the older the building, the higher are the chances that owners in that building will be hit with a special assessment fee at some point, Berger says.

Fannie, Freddie and FHA also require condominiums to put aside 10 percent of their annual revenue for emergencies and capital expenditures. Condo projects may be allowed to save less annually if they demonstrate they don't need as much reserves. The lack of proper reserves is the No. 1 issue in many of these condominiums, Tomaselli says.

"Eighty (percent) to 90 percent of them do not have appropriate reserves in their budget," Tomaselli says, based on projects he has worked with, including existing and new buildings.

Too many investors

The percentage of investors who own units in a project may also impact a buyer's ability to get a mortgage or to sell the unit soon.

Lauren Stark, who specializes in condos as a real estate agent for The Stark Team in Las Vegas, says about 95 percent of her deals are cash. "There's virtually no financing (for condos)," she says.

Stark says Las Vegas' condo buildings aren't necessarily financially troubled as many of Florida's condo projects are. But they are heavily owned by investors. FHA does not approve condo projects in which more than 49 percent of the units are owned by investors. Fannie and Freddie have a 30 percent cap for investor ownership.

Generally, units in buildings that are not financeable lose value because they have to sell mostly for cash, at discounted prices.

Is the building insured?

Another important factor that condo buyers often overlook is the community's insurance coverage.

Berger says many condo associations are reducing or dropping the community's insurance coverage to cost cuts. The move jeopardizes the investment of all the owners in those projects.

"New purchasers should ask the seller to obtain a copy of the building's master (insurance) policy," she says. "Then take it to your own insurance agent and ask is this enough coverage."

Insufficient insurance coverage can also make units in a project ineligible for financing, Tomaselli says.

"Nowadays, lenders view the condo development itself as collateral, not just your unit," he says.

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