

# Postponed repair work catching up with condos

## Attorney: Owners face 'a ticking time bomb'

**By Lori Welsberg**  
STAFF WRITER

Dilapidated stairways, rickety decks, leaky roofs, moldy walls and corroded sewer pipes. These are the sort of structural headaches confronting scores of homeowner associations as costly repairs to older complexes drain their communal treasuries.

After years of deferred maintenance, compounded by tightfisted members' unwillingness to pay higher monthly fees, condominium associations are facing a looming financial crisis, condo experts say.

"In order to maintain the assets, you have to have long-term thinking, but what we've seen is short-term people not planning for long-term futures," said Karen Conlon, president of the California Association of Community Managers.

When repeated Band-Aid fixes no longer suffice, condominium owners find themselves on the hook for hefty special assessments, sometimes in the hundreds of thousands of dollars. Increasingly, homeowner groups are having to take out loans to soften the blow of high levies.

"Deferred and unfunded maintenance is a ticking time bomb because so many homeowner associations are unprepared for it," longtime condo attorney Erik Basil said. "What sometimes happens is association members don't want to contemplate having to write a \$1,000 or \$5,000 check, so they pretend there's nothing wrong, and that's what has occurred for the last 10 years."

The problems associated with stalled repairs have worried Conlon's association for some time and are being complicated by the slide in home values and the credit meltdown.

"Before we started having high assessment delinquency rates and foreclosures, the issue of aging communities was one of our top trends we were

## ► CONDOS

CONTINUED FROM PAGE A1

### 72-unit complex getting overhaul at \$11 million cost

million residents live in what are known as common-interest developments, and about 75 percent of those housing communities are condominium complexes or condo conversions, according to Levy, Erlanger & Co. CPAs, a San Francisco accounting firm that tracks associations.

Nearly two-thirds of developments with homeowner associations are 16 years or older, so upkeep is expected to become even more challenging.

In Normal Heights, residents of an 88-unit condo conversion spent \$68,000 last year on a sewage-line repair after enduring repeated sewage backups and flooding. That's in addition to the roughly \$40,000 they took out of operating revenue to remove mold in four units at the 21-year-old complex.

This fall, the volunteer board overseeing a 186-unit Rancho Bernardo complex will ask fellow homeowners to finance more than \$5 million in long-overdue repair projects, including painting, repaving of parking lots, new wood trim and replacement of stucco partition walls and rotted wooden arbors. Last year, the association was unable to secure majority approval for a similar proposal.

Even associations with well-heeled members, such as that of the oceanfront Surfsong condominium complex in Solana Beach, haven't escaped financial misery. Built in the mid-1970s, many of the units, with stunning, unobstructed ocean views, are valued at more than \$1 million.

The 72-unit complex is in the midst of an \$11 million rehab that includes new roofs, decks, railings, siding, fencing and a new sea wall. Each condo owner has been assessed more than \$150,000 for the work, although the association had to foreclose on one owner who was unable to pay.

"We are the prime example of deferred maintenance," board President Gail Steel said. "The magnitude of the problem

was so frightening we had no choice. Things were actually falling down."

Her husband, John, a retired electronics marketing executive, stood on the sand in front of a condo building sheathed in scaffolding. He held up what used to be a deck's support beam that was riddled with dry rot. He also pulled from a plastic bag the remnant of a clogged sewer pipe to show how badly deteriorated the building components had become.

"A lot of the problem is homeowner associations look only at the outside of their buildings and don't address the problems inside," said Bill Smullen, a superintendent with Jon Wayne Construction, which is doing the repair work for Surfsong. "They patch it with Bondo and they putty, and it can turn into a big problem later on."

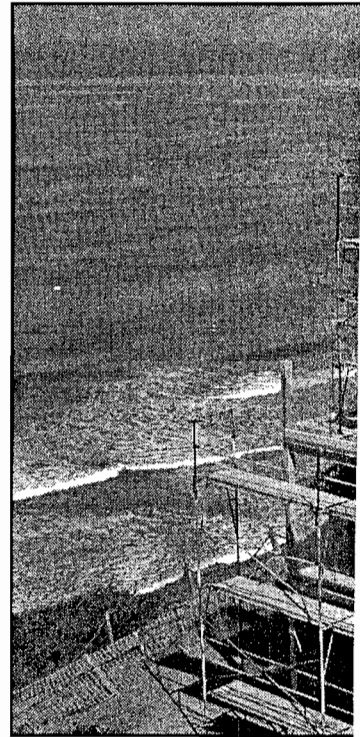
The company's president, Curtis McBride, estimates that his firm is working on repair jobs large and small for 30 homeowner associations at any one time.

Equally busy is Nautilus General Contractors, which also specializes in maintenance repairs and reconstruction work on condominium complexes. Often, the proclivity of homeowner associations to save money by doing quick fixes leads to "an endless cycle" of repairs, owner Steve Gustafson said.

"I just came from a 30-unit project in south Mission Hills, where they have extreme dry rot in the decks, and for the past five years they've been cutting out what they can and scabbing on another piece of wood, but they haven't solved the inherent problem," Gustafson said. "So we got a call from the board president saying he's tired of the Band-Aid repairs and what can he do. And ultimately the discussion turns to money and where will the funds come from."

Invariably, the answer is a special assessment. Even though associations are required by law to craft a long-term plan for financing repairs, the reserve funds often fall short of what's needed.

Considered a one-time levy to pay for major repairs, a special assessment requires a vote of the homeowners if the total bill exceeds 5 percent of an



Renovation work on the Surfsong condo owner more than \$150,000, board President Gail Steel said. The Canyon View condo complex.

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**MARY HOWELL,**

*San Diego attorney*

association's budgeted expenses for a year.

Often, the mere mention of high assessments infuriates stunned condo owners, association board members say.

"They'll say that all the experts are wrong, that 'we're going to get rid of you,' 'you don't know what you're talking about,'" said real estate agent Marguerite Thompson, a board member of a large condo association in Bernardo Heights. Her complex is the one facing \$5 million in repair work. "There's anger; there are threats to sue."

In some cases, as with the



condominium complex in Solana Beach (above) is costing each owner about \$100,000. "We are the prime example of deferred maintenance," Surfsong says. Acosta (below left) and Felix Lopez worked to repair a wall at San Carlos. Eduardo Contreras / Union-Tribune



Peggy Peattie / Union-Tribune

Bernardo Heights complex, problems related to faulty construction manifest themselves decades later, only compounding the problem of deferred maintenance.

"The outside of the buildings have privacy walls, but because they weren't made properly, they're literally collapsing," Thompson said. "Last spring, a lady was gardening next to one of the 6-foot stucco walls, and the next morning the whole wall had fallen down."

Two condo eras are now converging to create an explosion in needed repairs. The first was the construction boom in multi-

family housing 30 years ago, said San Diego attorney Mary Howell.

"You're now seeing the manifestation of deferred maintenance — the termites have come home to roost, subsidence has happened, you have irrigation problems, and the stucco and wood members are deteriorating," Howell said. "It takes 30 years for this to materialize and 30 years for the proverbial excrement to hit the fan."

The more recent wave of condo conversions in this decade, especially of older, smaller complexes, may also lead to a boom in repairs. While

## COMMON-INTEREST DEVELOPMENTS

- Run much like a corporation with a board of directors, the homeowner association of a common-interest development is required under state law to prepare an annual budget and regularly undertake studies to determine precisely how much money will be needed for long-term maintenance, such as reroofing, painting and resurfacing of streets.

- Associations also must disclose to members the status of their financial reserves, although there's no requirement that they actually be funded. Condo attorneys say the reality is that many association treasuries are woefully underfunded, leaving the owners financially flat-footed when emergencies arise.

- Prospective condo buyers should ask for all pertinent homeowner association documents, including the bylaws, the CC&R's (covenants, conditions and restrictions), the financial statement and reserve study, as well as an accounting of how well it's funded.

**Online:** For a primer prepared by the California Department of Real Estate about such developments, go to [http://dre.ca.gov/pub\\_re39.html](http://dre.ca.gov/pub_re39.html)

many of the apartment complexes were substantially modernized inside and out, it wasn't always made clear to the new homeowners how much structural work had been done.

Ellen Kanady, a legal secretary at a downtown San Diego law firm, has already spent several thousand dollars toward repairing a leaking gas line in the eight-unit condo conversion where she has lived since December 2006. The College Area complex, built in 1980, has been bedeviled by unforeseen problems almost since the day Kanady moved in. Making matters worse, some owners have gone into foreclosure or are nearing that stage.

"It's a nightmare for me knowing that if we have another major emergency, we won't be able to fix it," Kanady said. "And I don't know what we'd do at that point."

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