



## BUYERS HOMEOWNERS' ASSOCIATION ADVISORY

(C.A.R. Form BHAA, 6/24)

Douglas Elliman

California Civil Code section 4525 requires sellers of condominiums and other common interest or planned unit developments ("CID") to provide buyers with governing, financial, and other documents and information created and maintained by a Homeowners Association ("HOA"). These documents may be quite lengthy, causing buyers not to take the time to make a careful review of all HOA materials. Before deciding to proceed with the purchase transaction, it is critical that buyers carefully review all HOA documents to determine for themselves if the property they are acquiring meets their current and future needs for use and enjoyment of the property. As part of this review, Buyer should also consider if any of the documentation has not been provided, is incomplete, or missing.

### BUYER:

**YOU ARE STRONGLY ADVISED BY YOUR BROKER TO REVIEW ALL HOMEOWNER ASSOCIATION DOCUMENTS WITH APPROPRIATE PROFESSIONALS, IF NECESSARY, TO UNDERSTAND THEIR CONTENTS. YOU ARE FURTHER ADVISED TO CAREFULLY REVIEW THE PRELIMINARY TITLE REPORT TO DETERMINE ALL THE RECORDED DOCUMENTS RELATED TO HOMEOWNERS ASSOCIATIONS, WHICH COULD INCLUDE, BUT ARE NOT LIMITED TO, DEED RESTRICTIONS AND THE EXISTENCE OF MULTIPLE HOAs AFFECTING THE PROPERTY.**

**THESE DOCUMENTS WILL GOVERN, AFFECT AND, IN SOME CASES, LIMIT YOUR CURRENT AND FUTURE USE AND ENJOYMENT OF THE PROPERTY.**

All HOA documents and disclosures are important, however, the following are often areas of concern for buyers of property located in a CID.

1. **Covenants, Conditions, and Restrictions ("CC&Rs"):** The CC&Rs are the main governing document of the HOA. Generally, the CC&Rs describe the property rights, duties, and obligations of the HOA and the individual members. CC&Rs are formal documents recorded with the County Recorder and are extremely difficult to amend or change.
2. **Bylaws, Rules and Regulations:** Bylaws address the governance and operation of the HOA, including voting and election requirements, the number of directors and their term length, how and when meetings are held, and the meeting procedures. If promulgated by the HOA, the Rules and Regulations usually detail how the HOA will handle routine, day-to-day matters often affecting common area usage, expenses, etc.
3. **Minutes:** HOAs are required to prepare Minutes of Board of Directors' Meetings detailing past, current, and future (proposed) events, issues, and expenses such as existing or planned litigation, repairs, improvements or needed change in the dues and/or additional assessments. They reflect the decisions and reasons for those decisions, but are not a transcript of the meetings. The Minutes are often the best source of information regarding issues related to the common areas, the individual units, special and increased assessments, and the ability to use and enjoy the property after escrow closes.
4. **Financial Information:** The financial information from the HOA may be contained in numerous documents, including but not limited to: Pro Forma Operating Budget, Assessment and Reserve Funding Disclosure Summary, Financial Statement Review, Assessment Enforcement Policy, Insurance Summary, Regular Assessment, Special Assessments, and Emergency Assessments. The financial status of HOA could impact the future costs of owning the property.

**Reserves:** Buyers should determine if reserves are properly and adequately funded and if there are many homeowners who are delinquent on payments for dues and assessments. Generally, associations are required to prepare a reserve study, and, at least every three years, cause to be conducted a reasonably competent and diligent visual inspection.

**Wood Balconies, Stairs and Other Structures; Reserve Requirements:** Prior to January 1, 2025, buildings with three units or more, may be required to obtain an inspection of exterior balconies, stairways, walkways, or decks that are supported in whole or in substantial part by a wood or wood-based materials. For condos, the HOA will be responsible for the inspections per its governing documents. An inspection report must be incorporated into a condo HOA's study of reserve account requirements. This could in turn affect lender certification requirements as well as future dues and assessments. A balcony report that identifies an immediate threat to the safety of the occupants will require the condo HOA or owner to prevent access to the balcony further impacting a property's marketability.

**Pending and Future Assessments:** The Minutes and the HOA disclosure form itself may contain critical information and comments regarding pending or future assessment.

**Special or Emergency Assessments:** Buyers need to know if special or emergency assessments are currently due in full or whether they are due only in monthly installments. If it is not clear, buyer should request clarification from the HOA. The Purchase Agreement will determine whether the assessment payment will be paid by the seller at Close of Escrow, or whether the payments are prorated, and the buyer will be responsible for the monthly payments after Close of Escrow.

There are independent services available which will review the HOA documentation and give an opinion of the financial status of a HOA for a fee which is typically \$300.00 to \$500.00 depending upon the services to be provided and the extent of the HOA documentation. Real estate licensees are not qualified to assess the financial viability of any HOA.

If you have any questions or concerns about the financial status, strength, or stability of the HOA, contact your accountant who may be able to provide a professional assessment of the HOA's finances.



- 5. Rental Restrictions:** The HOA may have restrictions and/or prohibitions on your ability to rent your unit. These restrictions may be based on the number/percentage of units that are allowed to be rented, and the approval process associated with rentals. The HOA may also put restrictions on the ability to enter into a short term rental. Some HOAs have even gone so far as to completely prohibit rentals for all new owners; however, a 2021 law requires HOAs to allow at least 25% of the units to be rented or leased regardless of what the HOA governing documents state. In addition to the HOA restrictions, the city may also impose rental control and eviction control ordinances that may impact your decisions to rent the unit. You should investigate these issues with the HOA and the appropriate government authority to determine whether this property meets your needs. These restrictions may affect your decision to purchase the Property.
- 6. Lending Considerations:** Lenders may have certain qualifications that are required from the HOA before they provide financing on your purchase. Many lenders will require the HOA to provide a lender certification document, providing information regarding the HOA. Additionally, lenders will generally require the HOA to have a general insurance policy covering the HOA, which has become less available and more costly in California due to rising replacement costs and an increase in natural disasters. They may require a certain percentage of owner occupied units within the HOA. Further, if you are seeking a FHA or VA loan, the lender may require the HOA to be FHA/VA approved prior to making a loan. You should inquire with your lender and the HOA to determine what will be required in order to obtain financing.
- 7. Noise:** Due to noise and other factors, HOAs often restrict the type of floor and/or wall material that can be used in certain units and/or the number of pets. You should directly contact the HOA Board to determine whether the property can be used for your intended purposes. You should also determine whether the property meets your subjective personal preferences and needs.
- 8. Common Areas:** Those portions of a CID that are not wholly owned by the individual homeowners are designated as "Common Areas". Usually, the CC&Rs and/or the Bylaws will define what constitutes the Common Areas, how they are used, who gets to use them, and who is responsible for maintenance. Some Common Areas may be available for use by all members and their guests, such as a lobby or garden. However, some Common Areas may be "Restricted" or "Exclusive Use" Common Areas with access limited to certain homeowners (this is often true with swimming pools and spas especially when there are multiple HOAs within a CID), or may be restricted to just one homeowner, such as a roof, deck, balcony, or patio. In some instances, the homeowner may be responsible for maintenance of certain Restricted or Exclusive Use Common Areas. You should determine for yourself whether there are any restrictions affecting the Common Areas which could impact your intended use and enjoyment of the property.
- 9. Parking and Storage:** You should determine for yourself whether the allotted parking space(s) are adequate to park your vehicle(s) in the assigned spaces by actually parking in those spaces. Parking space(s) and storage space(s), if any, may be described in a Condominium Map or in the Preliminary Report issued by a Title Company. The actual markings, striping and numbering of these space(s) may not accurately reflect the actual spaces and may be in conflict with the space(s) designated in the recorded documents. It is therefore crucial that you personally determine if the parking and storage space(s) that are designated in the recorded documents are actually the space(s) being transferred to you and that those space(s) are acceptable for your needs and intended uses of the property.
- 10. Litigation:** Many CIDs have been involved in, or are presently involved in, or may become involved in, litigation regarding the design, construction, maintenance and/or condition of all or a part of the Development. Whether or not these lawsuits are successful, litigation is expensive, and the cost of such legal actions may impact not only the adequacy of the HOA reserves but also the amount of current or future assessments. Such litigation may also impact the willingness of lenders to make a loan secured by the property, and buyer's ability to obtain a loan to purchase the property.
- 11. Special Needs:** HOA documents may limit the number and size of animals allowed in units. Fair Housing Laws may impact the effect of such rules on "service" and/or "companion" animals. HOAs on their own, or because of local ordinances, may limit or completely ban smoking and/or vaping in common areas or units. The ability for new buyers to rent units and/or to operate any type of business may also be limited or completely forbidden. Therefore, it is important that you review all HOA documents to ascertain whether there are any limitations on your particular needs or planned use of the property.
- 12. Brokers:** Real estate licensees who forward HOA documentation to you have not verified and will not verify either the information provided or the completeness or accuracy of the documentation unless they agree to do so in writing.

**The undersigned Buyer acknowledges receipt of this 2-page Advisory.**

Buyer: \_\_\_\_\_ Date: \_\_\_\_\_

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