



Reserve Studies

Keep Them Useful by Keeping Them Accurate and Easy to Understand

by Kevin E. Bobb

A reserve study is a financial plan used to determine the appropriate amount of money required for capital repairs and replacement to commonly owned property of a community association. Funding capital repairs and replacements using special assessments and loans is much less cost effective than slowly accumulating reserves over time. Building reserve funds for major capital repair and replacement raises property value and mitigates the risk of a special assessment. This article highlights four important building blocks every reserve study should include for accuracy, comprehensiveness, and usefulness.

- Utilization of Trained CAI Reserve Specialist (RS)
- Accurate Reserve Component Variables
- Visually Comprehensive Reports
- Customize Reserve Study to Individual Properties

Utilization of Trained CAI Reserve Specialists (RS)

Conducting and producing reserve studies is an art and science. It cannot simply be conducted by following a set of standard procedures.

A CAI Reserve Specialist must complete a minimum of 30 reserve studies over the course of three calendar years to prove that they have the specific work experience to be called a CAI Reserve Specialist (RS). Engineers and architects with a RS designation have the educational background and specific work experience to accurately conduct reserve studies. They are proficient in reading blueprints and AutoCAD drawings to easily and accurately create unit quantities. They are skillful in taking on-site measurements utilizing appropriate tools and technologies, even when blueprints are not available. This expertise requires critical analysis and field experience. It cannot be achieved by following a set of procedures.

Accurate Reserve Component Variables

A reserve study is only as good as the information used to create the report. The foundation of a reserve study relies heavily on accurate component variables, unit quantities, conditions, remaining useful life, and estimated replacement costs. Defining the remaining useful life and estimated replacement costs of components requires deductive reasoning. Thinking outside the box helps identify conditions that play a factor on remaining useful life. For example, weather conditions at the ocean front compared to inland buildings will affect the useful life of exterior components differently in Miami than they do in Orlando. Additionally, it is important that unit costs for replacement are derived from multiple resources. Many reserve study providers purchase construction booklets to derive unit costs for components. Oftentimes, these estimates are higher than average unit costs or do not cover specialty items (such as elevator cabs or high-end light fixtures). The most accurate unit costs are obtained with multiple bids from local vendors in collaboration with unit cost databases. This ensures the most accurate replacement costs unique to each property.

Visually Comprehensive Reports

Engineers and architects are visual thinkers. So why are most reserve studies predominately text? Utilizing high quality digital photos during an inspection helps define the current conditions of individual property components. Photos provide evidence and supportive rationale for recommendations. It also helps property managers and the association board to see defined conditions, making it easier to understand the

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basis of the RS's recommendations. Lastly, photos create a baseline to evaluate components during update studies. It allows the RS, property managers, and association board to clearly see how the conditions have evolved over time. A simple excel spreadsheet will just give you words and numbers. The old adage of a picture is worth a thousand words is especially true when it comes to reserve studies!

Customizing Reserve Studies

The usefulness of a reserve study depends greatly on the expertise of the inspector, accuracy of the numbers, and the ease of navigating the report. After the inspector defines their opinion of overall conditions, it is also important that the report is peer-reviewed prior to shipment. This challenges each member of the team to analyze recommendations and

provide supportive evidence for their suggestions based upon photos provided from the inspector. These factors should make the reserve study unique and tailor-made to each property's needs. Unfortunately, many reserve study firms make these claims but simply charge more for non-specific boiler-plate text and spreadsheets with short descriptions and numbers. This is more similar to a maintenance manual than a financial reserve budget. For example, a maintenance manual provides advice for simple items, such as touch-up paint, while a reserve budget will provide the estimated financial contributions needed to fund a full paint schedule with accompanying pictures as supportive evidence. It is important for consumers to review sample reserve studies prior to signing contracts to determine if the reserve study is able to meet their specific property's needs.

Bottom Line

The usefulness of a reserve study is only as good as the information used to create it. Before selecting a reserve study firm, ask questions like: "Will a RS complete the inspection?", "Do you use photos in your reports?", and "Are bids for replacement items from local vendors?" Review sample reports to find a fit that meets your property's needs. Protect your investments with a budgeting tool that is valuable to your community association or management company.

Kevin E. Bobb is an engineer and reserve specialist. He is the President and Founder of Building Reserves, Inc. For more information, visit www.buildingreserves.com. ■

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