RESERVE STUDY FOR SHADOW RUN TOWNHOME HOMEOWNERS ASSOCIATION

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Purpose of this study: To assess the physical and financial condition of Shadow Run Townhome Homeowners Association, Inc. in Grand Junction Colorado, at a selected point in time, so as to allow a data-based forecast of HOA viability.

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I. Brief History

SRTHA was incorporated on January 6, 2006 through documents submitted to the Colorado Secretary of State's office. Construction of the first townhome began that same year with the model townhome being what is now unit 349. Development of Shadow Run continued rapidly afterward and grew to a collection of 24 units comprised of either two or four multi-level townhome complexes. Lots for eight more townhomes were included in the original HOA plans but no additional townhomes have been built within the HOA boundaries to date.

Occupancy of all units has been at or near one hundred percent during Shadow Run's existence. The mix of occupants includes both owners and renters, the ratio of which has been variable but owner occupants have predominated. Sales turnover has been active, for various reasons, with desirability of location and investment potential as important factors.

Board of Director membership during the life of Shadow Run has involved many people who have volunteered their time and talent, Unfortunately, the Board has often been understaffed which has placed significant strain on the members and resulted in decreased effectiveness and compromised planning. There have not been any major capital investments to address the overall appearance of townhomes since the association's inception sixteen years ago. This past history of HOA management presents significant challenges ahead.

II. Physical Description

Shadow Run consists of housing structures built on the slope of a hill that has multiple private homes on the land above and a gulley below the HOA that acts as drainage for Shadow Lake, which is located nearby along Mariposa Drive. Cliff View Drive is the thoroughfare that connects the upper and lower levels of the development and has two access points. One is on Ridges Boulevard and the other is from Mariposa Drive, which is the location of the Shadow Run sign. Each portion of Cliff View Drive has a noticeable grade that can make driving difficult in snow and ice conditions.

The soil type at Shadow Run is sandy loam that has the potential for erosion in the presence of excessive rain and water run-off. While there have been some erosion problems reported in the past, these have primarily arisen from subterranean drainage that went undetected. The native soil type has allowed for some settling of porch slabs but to date there have not been foundation problems of the townhomes.

Currently, the HOA has landscaping with grass and trees that do require vigorous landscaping maintenance. For this vegetation to survive in the arid environment of the Colorado Western Slope, irrigation is required and is a significant part of the yearly HOA budget.

III. Estimated current values of townhomes, market forces and future projected value outlook

Market value of residential property in Grand Junction has been on the overall increase for the past several years and Mesa County continues to be a popular location for retirees as well as those who are looking for a more desirable location to live, especially immigrants from deteriorating metropolitan areas in the Western United States. This trend will likely continue. Current inflationary pressure in the economy has slowed the housing market somewhat but it is unlikely to place any sustained slow-down on new people moving into the area.

Shadow Run is located in a premium area of Grand Junction known as The Redlands. New construction in this district has been, and continues to be, quite active. Residents of Shadow Run have noticed expansion of a relatively new townhome complex on the upper end of Shadow Lake (aka Gardner Lake Reservoir) near Redlands Mesa Golf Course at 392 W. Ridges Boulevard (The Peaks) and a new development of homes off of Mariposa (Pinnacle Ridge) above Shadow Run, which is currently under development with many homes already built. Some comparable prices of these developments to consider are:

Location	**Sq. feet/ acre**	**Price***	**Price/sq ft/ acre**
392 W. Ridges Blvd, Unit A, Townhome	2493	$758,600.00	$304.00
392 W. Ridges Blvd, Unit D, Townhome	2493	$733,510.00	$294.00
Lot 25 2404 Spire Ct. Pinnacle Ridge	0.24	$175,000.00	$729,166.67
Lot 26 2407 Talus Ct., Pinnacle Ridge	0.38	$195,000.00	$513,157.89
Lot 28 2410 Talus Ct.., Pinnacle Ridge	0.24	$195,000.00	$812,500.00
357 Aiguille Dr., Pinnacle Ridge	2225	$739,900.00	$332.54
374 Aiguille Dr., Pinnacle Ridge	2778	$849,250.00	$305.71
*Prices as of 12/2/2022			

This table suggests our neighborhood continues to have very good investment potential but, since Shadow Run was started in 2006, it is beginning to mature and maintenance costs are expected to increase. A recent example of rising expense is that the Shadow Run yearly landscaping bill has increased over $2000 since last year. Sale values for Shadow Run townhomes of late have been in the low to mid $400,000 price range, which has been a significant rise in the past five years, However, it is expected that inflationary factors will begin to rapidly increase upkeep costs of the HOA and this will in turn make reserve contributions for capital improvements more difficult. In the face of increasing costs, projects to update the exterior appearance of Shadow Run and maintain curb appeal are likely going to either require monetary assessments or increased monthly fees for owners.

In estimating the value of Shadow Run there are two components. One is the value of the physical structures and the other is value of the common areas, which includes green spaces, sidewalks, roads and irrigation. Looking at the above table and what current property is bringing per square foot at sale, a conservative number for Shadow Run is $170 per square foot. Townhome sizes at Shadow Run vary but an average is around 2500 square feet. This would place the total value of all townhomes at $10,200,000. The common areas have value but only to the HOA as a whole. One tract that could be seen as a disposable asset would be the small rectangular green space on upper Cliff View Drive which could be sold, if needed. Because of shape and location, it is difficult to estimate what this property might bring at sale but $75,000 to $100,000 would be a reasonable price range.

IV. SWOT Analysis

Strengths:

- Location – The Redlands Mesa will continue to be a desirable location for people to live and build in. Distance from the city center and congested areas, property values, new construction, prime vistas, mild winters, an active public works department maintaining roads and infrastructure plus easy access to shopping, health services and recreation are some of the main reasons that, for the foreseeable future, Shadow Run is quite favorably located.
- Social migration – As larger metropolitan areas deteriorate politically and social order progressively breaks down, places like Grand Junction will see population growth.
- Following the current recession, the economy of Grand Junction is expected to rebound strongly. Improving interest rates will likely bring more growth to the area.

Weaknesses:

- Aging property
- Owner apathy and behavior – This makes it very difficult to maintain an effective Board of Directors. Board member turnover has been significant in the past and disruptive personalities of certain Board members have discouraged participation by other owners.

- Absentee ownership – The investment potential of Shadow Run has resulted in several owners not actually living in the community. While this is understandable and allowed in the Covenants, Conditions and Regulations, it nevertheless results in less motivation by owners to be directly involved in issues and decisions that affect their property. For example, renters in one unit had caused significant turmoil due to disruptive behavior and non-compliance with rules and regulations. This required the Board to spend much time on problem resolution, dealing with belligerent tenants and contacting authorities. While this could happen with any townhome owner who lives in Shadow Run, when a resident is the owner, there is greater incentive to be a compliant, pleasant and helpful member of the neighborhood. However, this is not always the case.
- Investment growth potential – because of rapid real estate appreciation, several owners have cashed in and moved. This limits the size of a group of consistent owners available and willing to volunteer for Board participation.

Opportunities:

- Xeriscaping – This term refers to landscaping that requires little or no irrigation. Currently, Shadow Run spends close to $20,000 for a contract to maintain the yards and other green areas in the development. Many people have moved to Grand Junction from parts of the country that are not in a desert climate and where people often prefer to have yards with grass and trees. As green area maintenance gets more expensive, Shadow Run may need to consider transition to landscaping that requires less upkeep.
- Plans for building a new townhome are nearing completion. Design is expected to be similar to existing structure but with some updated modifications to match planned upgrades in the current Shadow Run living structures.
- HOA owners always have the opportunity for volunteer involvement with Board of Directors management. Successful leaders get along with each other to achieve a common goal for the benefit of the community.

Threats:

- Poor management of the HOA. Owners are reminded that it is up to them to manage the day-to-day operations of the HOA and not Heritage Property Management (HPMGJ). The role of HPMGJ is to make sure the HOA is compliant with government regulations, that money is dispersed to contractors with consent of the Board, that records are kept for all financial transactions and procedural functions and that all relevant information HPMGJ receives is forwarded to the Board. In the past there has not been consistent and robust participation in Board activities.
- Labor market – It is difficult to find skilled workers and contractors to take on smaller jobs, such as what we need. The size and quantity of construction work in Grand Junction is making it less attractive for companies to engage in the scope of work that Shadow Run requires. This results in the cost to the HOA being much higher and can easily break an HOA budget if not managed judiciously.

- Erosion is an ongoing problem in certain areas of the HOA. This has the potential to cause substantial costs to the Association and will need close monitoring.
- Depreciation – If capital projects for upgrades and maintenance of HOA structures cannot be funded, property value will depreciate and result in loss of investment worth. This is the primary importance of having sufficient reserve money.
- Black Swan event – an unexpected catastrophe that could affect the HOA

V. HOA Revenue

The current monthly fees at Shadow Run are $325 per month. This computes out to $7,800 per month and $93,600 per year. Other than rare late fees and minimal interest income on the reserve savings account, the amount of money taken in by the HOA for management and saving for the reserve account is $93,600 yearly. If that becomes insufficient, the next step would be to either increase monthly fees or levy monetary assessments on homeowners. Yearly operations costs for 2022 were approximately $58,000 (November and December are still pending) but the projected operation and project costs for 2023 are around $158,000 which includes upcoming stucco repair, painting and gutter replacement. This will leave an estimated deficit of $ 16,711 and NO money for reserve account contribution at the end of 2023. At the start of 2023 the amount in the Shadow Run reserve account is estimated to be $185,000. However, this will become depleted ever year as capital improvements are paid for and no increase in revenue occurs.

VI. Recurring cost estimates in yearly budgets

As mentioned in Section V., the operations costs for 2022 will be approximately $58,000 but are budgeted to rise substantially for 2023. Beside landscaping, which will be approximately $21,000 for 2023, concrete work on driveways was a noticeable expense increase in 2022 and will be in 2023. Refer to the attached 2023 Shadow Run budget for more information.

VII. Projected capital projects and cost estimates for next five years

What capital improvements can be done in the next five years and beyond will be limited by how much money the HOA has and how willing it is to remove money from the reserve account. At his point, it seems apparent that capital improvements will have to be completed in stages according to what the budget allows. The more money spent for maintenance of individual townhomes from work requests, landscaping, road repair, etc., the less there will be for general upgrades for the entire community. At the start of 2023 there will be an estimated $185,000 in the reserve account. This not a large amount when compared to proposed capital improvements. **(Refer to spreadsheets at the end of this review document.)**

Estimates for proposed projects 2023 - 2027: **

1) 2023 – Commencement of exterior stucco repair and painting
   Estimated cost: $80,000
   2023 – Gutter repair $20,000
2) 2024 – Continuation of stucco repair and painting
   Estimated cost: $80,000
3) 2025 – Replace and repair decks/rails
   Estimated cost: $50,000
4) 2026 – Replace and repair decks/rails
   Estimated cost: $50,000
5) 2027 – repair of drainage problem behind wall on upper Cliff View Dr. and behind block wall by lower parking area
   Estimated cost: $40,000

Total estimated capital costs for years 2023 – 2027 is $320,000.

****The above are estimates only and assume there are no intervening emergency repairs or other problems that might require the diversion of money to more urgent needs.

VIII. Projected capital projects and costs beyond five years

2028 - 2032: During this time period it is likely that townhomes will need new shingles. An estimate for roofing all buildings in the HOA is $300,000 (60,000 square feet x $5/square foot). This would be spread over 2 – 5 years depending on the amount of operating cash and reserve money available. Other than this expense, there are no expected major projects planned. A Black Swan event is always a possibility and could result in the use of emergency funds and greater strain on HOA financial resources.

IX. Black Swan event considerations

A Black Swan event, as it applies to business, is an unexpected and catastrophic occurrence that severely disrupts the economy. The COVID pandemic, the economic collapse of 2008, the terrorist attacks of September 11, 2001 and Russia's invasion of Ukraine are all recent examples of events that have had devastating economic effects. This potential for disruption should always be kept in mind and planned for as much as possible. At Shadow Run, an example of a Black Swan event would be a landslide or other natural disaster that damaged many homes and caused uncovered losses. It gives one a sense of why an adequate reserve fund is a very good planning strategy.

X. Potential for special assessments and HOA incurring loan debt

For whatever reasons, Shadow Run does not have a comfortable reserve fund cushion. Also, as the reserve fund is depleted due to expenditures on capital projects, it will be difficult to make adequate yearly contributions to the reserve fund to build it back up. If the depletion of funds becomes critical, there are four options:

1) Decrease recurring expenses and de-emphasize routine maintenance costs.
2) Raise monthly fees by a sizeable amount.
3) Special assessments on all townhome owners to adequately fund the reserve account.
4) Taking out a loan from a financial institution. (This tends to be more burdensome than special assessments and will be a contingent liability on future sale of the townhomes.)

Shadow Run is a relatively small HOA and the effective management of association funds is critical. All owners need to be acutely aware of Shadow Run's current financial situation and the physical needs ahead.

XI. Summary

Takeaway points from the reserve study are:

1) Shadow Run has several strong factors in its favor for maintaining owner value.
2) Reserve funding is currently inadequate to assure completion of needed capital improvements and avoiding depletion of the reserve fund without budgetary changes, increased fees and/or additional use of other revenue sources.
3) Shadow Run is now at the age where withholding capital improvements will rapidly affect resale value and buyer desirability.

XII. Spreadsheets – Please refer to attached Excel documents