Private Clubs & The Surfside Condo Tragedy

Clubs Can Learn from the Surfside Condo Building Collapse

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We all watched in horror as the Miami condo building collapsed, taking nearly 100 lives, and destroying these families. It is rare for this many fatalities to occur in a building disaster (Surfside is among the top 10 largest such casualties along with 9/11 and the OKC bombing). But this is not just a story of structural engineers, building codes and enforcement of those codes. This is a story about how associations fund their ongoing maintenance – which both condo buildings and private clubs deal with.

“There is a structural problem with the design of these associations,” according to Peter Coy of Bloomberg Businessweek. “These are inherently difficult to manage, because they’re run by the residents, who generally are not professionals and have mixed motives.” On the one hand, Coy points out, condo association members (like club members) want to keep the property up and on the other hand they want to minimize their assessments. Sometimes the desire to minimize the assessments gets the upper hand, and buildings (like clubs) fall behind on needed maintenance. “Would you rather put your money into college education or a new car, or maybe you are planning to move, and you see no reason to assess yourself massive amounts of money for things that will accrue to the benefit of people who will be there after you’re gone.”

This all sounds achingly familiar to those of us who have spent time in member-owned club board rooms. Tennis members don’t always want to pay for bunker renovations. Golf members often resist non-golf expenditures like pickleball courts or dining room upgrades. And older club members think like the condo resident about to move – why should I pay a large assessment for things I won’t be around to enjoy?

73 million Americans (more than 25% of the U.S. population) currently reside in the nation's nearly 350,000 community associations (which includes condos and HOAs), so this is a big issue getting lots of attention. Experts are suggesting that getting a capital reserve study every 3 years is not enough – if the association members don’t actually fund the needed improvements. (This is what killed the Surfside residents – the association knew there was $16.2 million of deferred maintenance that needed fixing, but the Board had only $777,000 in reserves and was dithering about additional assessments.) Condo associations often “kick the can” on these improvements: there is typically a rule that condo boards must set aside adequate cash reserves to pay for needed building improvements, but all it takes is a simple majority vote of the condo unit owners who show up at a condo board meeting to postpone the need for expensive set-asides.

Sound familiar? There is now talk in the HOA and condo industry to make these reserves mandatory, and to force condo boards to make the assessments and complete the improvements. It would not be surprising to see banks who lend to these associations and insurance companies who insure them to require these assessments – or else you default on your mortgage or lose your insurance policy. Private, member-owned clubs who fund their club capital needs like condos – through assessments of the members – should insist that all capital needs discovered in the capital reserve study be funded annually through operations or ongoing assessments. Or their Boards should consider partnering with organizations like Concert Golf Partners who have large balance sheets and fund ongoing capital reserves as a matter of company policy.