Community Next: 2020 and Beyond

External Influences Panel Report

Introduction

Community associations and the number of people living in them have grown exponentially over the past few decades. In 1970, only roughly 10,000 associations existed. Today, an estimated 67 million Americans—about 20.7 percent of the population—live in 333,600 homeowners associations, condominiums and cooperatives. In the coming decades, these figures are expected to increase, giving associations and association leaders increasing influence and attention.

At the same time, community association volunteer board members, professional managers and community business partners will face a number of challenges and factors—largely beyond their control and expertise—that will influence common-interest communities.

Community Associations Institute (CAI) gathered a group of thought leaders—a community association volunteer, several community managers, association attorneys, a reserve provider, a real estate agent, representatives from the National Association of Home Builders (NAHB) and the National Association of Realtors (NAR), an academic expert and journalist—to discuss some of these influences and what can be done to mitigate the negative and accentuate the positive. The group, named the External Influences Panel, has predicted that changes in demographics and attitudes, economic factors, perception and reputation, influential stakeholders and organizations, local trends and more will combine to affect how associations are operated and governed in the next 15 years. These elements largely are interrelated, and for associations to continue to thrive as the preferred places to call home, CAI and association leaders may need to adapt and prepare their communities for the evolution of community association living.

Demographics and Attitudes

From millennials and Generations Y and X to baby boomers and the matures, common-interest communities increasingly will serve multiple generations. The panel believes associations will need to revise their communications strategies, operations, assessment collections, reserves for deferred maintenance, governance and meeting schedules to accommodate the broadened audience. In general, residents will be more interested in walkability, amenities and activities beyond golf and tennis, and telecommuting. They're placing a higher value on open space too. There's likely to be more interest in association-provided maintenance services, such as landscaping, snow removal and other projects traditionally administered by homeowners.

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Separately, each generation will present different challenges to board members, managers and association business partners. Baby boomers, for example, will be coming to grips with the savings lost during the Great Recession. They are expected to delay retirement and, when they do retire, to age in place more frequently instead of moving to the traditional retirement meccas in the Southeast and Southwest. In addition, they may not be looking for high-end, amenity-rich developments as much as they have in the past. With the decline in pensions, and 401k and retirement plans hit hard during the recent recession, there will be a greater wealth disparity within retirees. Communities will need to reflect that disparity. Boomers also are much more active than their predecessors, seeking more diverse amenities and events that go beyond the typical golf, gates and tennis ethos of today's retirement communities.

Some associations will find themselves evolving into pseudo-assisted living facilities, even though they're not prepared for the additional burdens of aging residents. Some older residents may require round-the-clock, live-in caregivers—contracted healthcare providers and family members. This may create conflicts with occupancy requirements, parking restrictions and the like. Group homes, for example, typically run afoul of governing documents in community associations.

Governing documents may contain restrictions that preclude providing additional services to certain members such as the elderly, but aging residents will expect their communities to make it possible for them to remain in their homes. That's why future associations may need to depend more on outside services to meet the needs of older residents, while looking at physical modifications to the property to accommodate diminished physical capacity.

Meanwhile, millennials and the i-generation, saddled with student loan debt, facing a difficult job market and possibly unable to qualify for a mortgage, won't be as eager to buy a home as previous generations; they will be renting for longer periods of time and will be more likely to move back home and live with their parents after college. In addition, they're also expected to delay marriage and children, and have more interest in living in cities. For that reason, the development of condominiums is expected to boom. CAI should broaden its outreach to urban high-rise managers, especially in major high-rise markets like New York, Los Angeles and Miami. Board members, managers, attorneys, insurance and reserve providers will need to be better versed in high-rise and shared-living communities. This will include being knowledgeable about maintenance and operations of elevators, boilers, chillers and more.

On the social side of the situation, millennials often value connections and shared causes, so when they do buy, it may be in a community with a collective purpose or ethos. Millennials also tend to make decisions informally through e-mail, texts and social media. As seen through Facebook, Twitter, Instagram, Snapchat and other social networks, they tend to have a more inclusive communication style and may want to bring all residents into a discussion. When they join association boards, they may look to amend documents and association procedures manuals to provide for fewer meetings, and to allow decision-making by e-mail or text and homeowner engagement via social media.

As for ethnic and cultural diversity, the panel believes associations will become less homogenous. Today, in many areas throughout the country, Caucasians make up the majority of single-family home community residents. Condominiums and townhome communities, especially in cities and surrounding suburbs, have greater diversity. In 15 years, the Hispanic population in particular is expected to boom. Depending on a community's geographic location, bilingualism will be a valued job requirement. Associations also may be counted on to provide multilingual governing documents, rules, newsletters and websites. Alternatively, translators may need to be on hand for association meetings. To bridge the language gap, it also may be beneficial for communities to embed photos and illustrations in governing documents and publications.

Economic and Environmental Factors

During the Great Recession, delinquencies and foreclosures battered association operating and reserve funds. Today, most community associations have recovered financially and that trend is expected to continue. However, association leaders will need to continue to pay close attention to their accounts and pursue delinquent owners when necessary. In some states, association liens can take precedence over mortgages, but courts may intervene and strip away those priority liens.

Meanwhile, the business world is increasingly moving toward virtual offices and home-based employees, and in the age when small businesses can sprout up overnight with an idea and a website, more residents will be working from home.

In addition to economic factors, association leaders will need to receive even more education than they do today on environmental and energy issues. Homeowners are expected to be more interested in water conservation, xeriscaping, artificial turf, solar panels, electric cars and charging stations. Board members and managers in the South, Southwest and West, in particular, will need to get up to speed on things like xeriscaping and recycled water, and may need to keep a constant eye on residents' water consumption. Municipal water providers and local and state governments may count on association leaders to help them monitor water use and abuse among residents and to lead the way through water-wise common area landscaping and amenities.

These environmental issues, and possibly a new set in 15 years, could clash with association rules and regulations; they also could impact where and how development occurs. The availability of water is likely to have a significant influence over where development occurs.

Perception and Reputation

The panel believes CAI, its chapters and association leaders will still be facing the negative perception of common-interest communities from the media in the next 15 years, and all stakeholders must do more to accentuate the positive aspects. The challenge is exacerbated by the budgetary crunch among traditional news outlets, which are expected to turn more frequently to wire services and away from original reporting. That will make sharing positive association stories a greater challenge than it is today. The panel, which included a member of the media, also concluded that association board members and managers need to be better trained and educated on working with news outlets; they need to learn how to frame things positively and proactively share their stories.

Efforts to change the perception of associations will be critical in coming years. The negative reputation, especially in media coverage, influences legislators and regulators, who then work to create laws and standards to "fix" a problem that may not exist.

In general, homebuyers don't understand what an association does or why it exists in the first place. CAI and its members need to do a better job of explaining associations and describing what they're responsible for. To wit, the public often doesn't realize their tax dollars are being saved through the creation of associations. First-time community association homeowners sometimes confuse who's in charge of development, transition and architectural review, or why associations have rules and regulations.

However, there's a belief among panel members that as more people live in associations and have positive experiences, the overall perception of associations will improve. Research today continues to show that association homeowners are largely happy with their experiences; CAI and its members will need to make sure that continues through a continued focus on education, advocacy and other outreach efforts.

Influential Stakeholders and Organizations

Association leaders also will need to work closely with influential stakeholders and organizations, such as developers, real estate agents and mortgage lenders. The National Association of Homebuilders, National Association of Realtors and American Bankers Association exert an incredible amount of influence over development, sales and mortgage lending for homes in community associations. AARP, with its large and active membership and powerful voice, also impacts the success of associations. CAI will need to engage these organizations to ensure common-interest communities continue to be considered preferred places to call home.

The community association governance model today is a product of state and local statutes, ordinances and planning board requirements and of the developers who are required by those statutes and government entities to create associations. The success of associations rests squarely on the quality of the documents that these developers create. Unfortunately, many developers and their attorneys don't take into account the operational and governance needs of the association following transition. Some are likely to be unaware of the problems that arise later from generic or antiquated documents that do not address the unique needs of a particular association.

The panel felt that CAI and its members, particularly community managers and CCAL fellows, should work with developers, the members of the National Association of Home Builders and developer attorneys to foster a better understanding by them that drafting appropriate documents in the beginning is better than amending inappropriate documents. Developers should be encouraged to understand that creating quality governing documents can lessen tensions during and after turnover of control to association members. CAI needs to work with both developers and their attorneys to improve governing documents before they're filed. Initial board members and managers need to pay close attention to their association's documents—and the typical checklist—during the transition process. And managers engaged by the developer during the development process should be encouraged to use their knowledge of post-development association operational needs to steer the developer and its attorneys toward drafting and filing appropriate governing documents.

The business of developing community associations has become increasingly litigious. The community association industry would benefit tremendously from CAI providing enticing educational opportunities to developers to reinforce to both developers and associations that their interests are not mutually exclusive. Savvy developers already understand that the possibility of litigation is lessened when the development team pays attention to detail, properly supervises contractors and sub-contractors, fully discloses to prospective purchasers details of the project and makes a reasonable contribution to reserves during the period of developer control. CAI's goal in this regard should be to help educate all developers regarding these issues and thus greatly improve the quality of new communities coming online.

While AARP doesn't have a direct hand in the development, sales or lending in communities, it is the largest special-interest group in the country; their key goal is making the world a better place for anyone over the age of 50. With so many community association residents over that mid-century mark and aging in place a growing trend, partnering with AARP could be very beneficial for CAI. The panel believes AARP could help associations improve their perceptions among media members and the general public. In addition, the panel thinks CAI and AARP could partner to develop guidelines for supporting aging in place. AARP also pushes its members to serve and volunteer; community associations are always in need of volunteer leaders and could be outlets for AARP to encourage its members to serve.

Meanwhile, the National Association of Realtors and CAI often have the same goal in mind: providing quality living for people. Yet the two organizations could become better connected. The panel members believe Realtors are becoming more comfortable selling in associations, and to some extent, because of the proliferation of common-interest communities, Realtors may not be able to avoid selling in them. The panel discussed how important it is for real estate agents to understand the ins and outs of community associations, so they can explain to potential buyers how they work and what will be expected of them should they own in associations. If CAI could partner with NAR and offer education to Realtors, who could then pass their knowledge on to homebuyers, there likely would be fewer owners who don't understand the responsibilities and expectations of living in associations. There are a few issues where CAI and NAR clash, such as the responsibility for delinquent assessments on foreclosed homes and community association manager licensing. But with the same goal of helping homebuyers find places they'll be happy to call their own, there are more opportunities for CAI and NAR to work together than against each other.

Local and Municipal Trends

A number of patterns in development and generational desires will combine to impact associations too, but the extent of these influences largely depends on geographical location. For example, panel members cited that the Northeast Corridor and parts of Florida are running out of large tracts of land for development, leading to a growth in townhome, condominium and small single-family home communities—and a gentrification of existing structures and property. That may mean fewer amenities, lower assessments, a compact governance structure and a focus on contracting with service providers instead of hiring staff. As previously stated, managers and board members will need to be better versed in high-rise operations and governance with a special focus on maintenance. Again, CAI should broaden its outreach to urban high-rise managers.

Panel members also discussed the recent growth of rental properties and conversions of condominiums into apartments. Once these renters gain enough equity and begin looking for ownership opportunities, there may be a rash of conversions from rentals into homeowners associations and condominiums—a cycle that seems to repeat every 10 to 15 years.

Meanwhile, as baby boomers opt out of assisted living, they may turn to mother-in-law suites within their children's homes. Similarly, millennials may be opting to move in to suites attached to their parents' home. Associations may need to assess whether they'd accept these new living situations and review and update their governing documents accordingly.

With fewer amenities and closer quarters in many developments, there may be a bigger need for mediation services. Managers and board members will need to be well-versed in generational dynamics, communication styles and more.

Senior housing communities also may want to consider strategic partnerships with healthcare facilities and hospitals, which will benefit their aging residents.

Conclusion

While association stakeholders will need to prepare for these coming challenges, seek education and advocate for communities, it became clear to the panel that the primary mission of associations will remain unchanged. Volunteer board members, managers and business partners—even CAI and its chapters—will always be focused on maintaining and improving property values and making communities preferred places to call home. That means collecting assessments, enforcing rules and restrictions, providing quality leadership and more—no matter what external forces influence associations.

Many thanks to the members of the External Influences Panel for the many hours spent discussing the above issues, likely impacts and how CAI and its members can prepare for the challenges ahead.

External Influences Panel

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