

# POA Dues Committee

Presentation of Results

November 17, 2015

# Motivation for Study

- Annual dues projected to increase by 10% per year, for 4 years, to finance GC road resurfacing
- Given current structure, annual dues are a larger percentage of value of lower-priced homes than higher-priced
- Concern that affordability of lower-price homes in GC is negatively impacted by dues and that increases in dues will exacerbate the issue

# Committee Mission

- Determine if compelling justification exists to change GC annual dues structure
- If a compelling justification does not exist, explain why
- If compelling justification exists
  - Identify reasons
  - Explore alternative dues structures (e.g., county tax-based)
  - Pro/con alternatives
- Make recommendation to POA Board

# Committee Membership

- Members
  - Dick Amistadi Joe Gannon Corinne Houpt Gus Kolias
  - Tony Laughrey Bill Patchett Chris Wittmayer Cathy Wright
- Board Liaison: Les Stuewer
- Criteria for committee membership
  - Act in best interests of the community rather than how it would affect them personally
  - Committee members viewed as good listeners and thoughtful problem solvers
  - Various GC neighborhoods to be represented
  - Half of eight members would benefit financially from a change to tax-based dues structure; half would be financially disadvantaged

# Committee Resources

- Realtor phone calls
- Realtor interviews
- Committee meeting with realtor
- Review of 2016 POA expenses
- Review of emails sent to the Board
- County real estate tax records
- Governors Club sales data
- Sales data from surrounding communities
- Internet searches for NC communities like GC
- Phone calls to communities like GC
- Discussions with attorney
- Committee meeting with attorney

# Committee Conclusion

- Bottom Line: 7 committee members found no compelling justification exists to change annual dues structure. One committee member disagreed with this conclusion and resigned

# Real Estate Comparison

- Governors Club properties lag area properties
- Square foot prices (p 19)
  - Notably lag Orange County (e.g., the Oaks)
  - Slightly lag Durham County (e.g., Meadowmont)
  - Exceed other Chatham County communities (e.g., Briar Chapel)
- GC has lost value versus the Oaks (p 20)
- The question for this committee is whether GC dues are a significant contributing factor

# Governors Club Sales Data

- 129 GC homes listed 2015 YTD

	<u>&lt;\$500k</u>	<u>\$500-750k</u>	<u>&gt;\$750k</u>	<u>Total</u>
Active	20	26	34	80
Sold	15	20	10	45
Pending	<u>0</u>	<u>2</u>	<u>2</u>	<u>4</u>
Total	35	48	46	129
% Pending and Sold	43%	46%	26%	38%

- On average 38% were pending or sold
- Percentage was higher for lower and medium price homes
- Percentage lower for higher price homes



# Governors Club Sales Data – 2015 YTD

	<u>&lt;\$500k</u>	<u>\$500-750k</u>	<u>&gt;\$750k</u>	<u>Total</u>
% of Homes in GC (901)	13%	45%	42%	100%
% of GC Homes on the Market (129)	27%	37%	36%	100%
% of "On the Market Homes Sold/Pending (49)	31%	45%	24%	100%

- Proportionally more under \$500k homes were “on the market”
- “Sales” of <\$750k homes were proportionally higher than more expensive homes on the market
- Multiple factors at work
- Sales distribution does not demonstrate a negative impact on the lower priced homes by dues structure

# Dues Plus Property Tax Comparison Example

	<u>Oaks @1.24%</u>		<u>GC @.71%</u>		<u>Total</u>	
	<u>Dues</u>	<u>Property Tax</u>	<u>Dues</u>	<u>Property Tax</u>	<u>Oaks</u>	<u>GC</u>
2015 \$400 K Home	\$75	\$4,946	\$2,244	\$2,840	\$5,021	\$5,084
2016 \$400K Home	\$75	\$4,946	\$2,468	\$2,840	\$5,021	\$5,308
2015 \$700K Home	\$75	\$8,655	\$2,244	\$4,969	\$8,730	\$7,213
2016 \$700K Home	\$75	\$8,655	\$2,468	\$4,969	\$8,730	\$7,437

- From Buyer's perspective (all else equal)
  - Dues only: "Buy Oaks"
  - 2015 Dues Plus Tax
    - \$400k Home "Roughly Equal"
    - \$700k Home "Nod to GC"
  - 2016 Dues Plus Tax
    - Equation shifts more for a lower priced home

# Area Property Tax and Dues Comparison

- Appropriate comparison includes **Dues and Property Tax**

				After 4 years @ 10%
	<u>\$350k</u>	<u>\$500k</u>	<u>\$750k</u>	<u>(Only GC Changes)</u>
Orange (Oaks)	\$4,402	\$6,257	\$9,348	\$4,402 - \$9,348
Durham (Treyburn)	\$5,147	\$7,160	\$10,514	\$5,147 - \$10,514
Chatham (Preserve at Jordan Lake)	\$3,485	\$4,550	\$6,325	\$3,485 - \$6,325
Chatham (GC)	\$4,729	\$5,794	\$7,569	\$5,770 - \$8,610
# GC Properties	17	102	402	
	\$0-350k	\$350-500k	\$500-750k	

- The fact that GC dues/taxes are generally favorable today suggests our current dues level is not the driving force to our property value issues

# Area Property Tax and Dues Comparison

- GC relative to the Oaks (Orange), comparing dues plus tax
  - Orange tax rate is 1.234% vs Chatham's 0.7099%
  - GC enjoys a current advantage for all homes >\$420k (30 homes), 3% are "defensive"
  - After all dues increases, the "breakeven" goes to \$600k, when 290, 32% are defensive
  - The lower the home value, the less the GC tax advantage offsets dues increases
  - Entire disadvantage of even the most disadvantaged home is less than the costs attributed to roads and gates

# Area Property Tax and Dues Comparison

- GC relative to Treyburn (Durham)
  - Tax rate is 1.3419%
  - GC enjoys a current advantage for all homes >\$280k (11 homes, 1% are defensive)
  - After all dues increases, “breakeven” goes to \$440k, when 56, 6% are defensive
- GC relative to Preserve at Jordan Lake (Chatham)
  - There is no tax advantage
  - GC higher dues fund the costs of being a private community
- Bottom line:
  - All GC homes are defensive to Preserve \$1,200 today. \$2,300 after all dues increases
  - Over the next 4 years, GC homes under \$440-600k will be increasingly defensive to homes in Orange and Durham Counties, respectively

# Realtor Input on Dues Varies

- **Realtor A**
  - Primary issues to potential buyers are condition of homes and fear of special assessments
  - Homeowner dues are part of the decision process, though when combined with taxes, not a deal breaker
- **Realtor B**
  - Dues are a significant consideration
  - When combined with taxes, they become less of an issue
  - Dues won't be the issue that drives buyers out of GC
- **Realtor C:** Proposed 10% per year dues increase for next four years will have a marked negative effect on sales of lower valued GC properties
- **Realtor D:** Moving to tax-based structure will cause friction between GC residents and hurt property values. Prefers assessments to dues increase

# Other NC Communities

- Of the 1,600 single family HOAs represented by our Board attorney's firm
  - Every single family community in NC uses a one-lot, one assessment structure similar to GC
  - None uses a structure based on tax value
- Six NC communities similar to GC (gated, private, diverse property values) were examined (p 21)
  - The communities all use a "flat" dues structure (like GC's)
  - Unimproved lots are assessed at 60% to 100% of improved lots. Also "flat" structure

# Legal Advice

- There are no specific statutory provisions in NC which would prohibit the amendment of our covenants to provide for assessment of annual dues on tax value basis
- It would take a positive vote of over 800 (67%) lots to approve a new way of assessing annual dues
- Basing assessments on tax valuations would increase the likelihood of legal challenges under common law due to:
  - Ceding control to external authorities
  - Assessing based on criteria other than services used



# Thoughts to Consider

- Current system based on premise that all GC residents share benefits and costs equally
  - No specific community cost is individually assigned
  - All benefits (appearance, security, privacy, marketing) are available to all
  - POA value is independent of home size/value
- A tax-based system introduces difficult issues:
  - It would raise the question of how to revise the current premise of 1 lot = 1 assessment = 1 vote
  - A resident's view of a change to a tax-based structure could depend on how their dues are affected (“eyes of the beholder”)
  - Range of dues paid could vary by a factor of 10; this would be divisive
- Committee judged current system to be fair. It is consistent and equal for all

# Committee Marketing Thoughts

- There is a property value/sales issue
- The private nature and beauty of the GC community are significant reasons why residents self-selected to live in Governors Club versus other area choices
- Marketing efforts must be redoubled
- Changing the dues structure will not be a significant contribution to solving the marketing problem

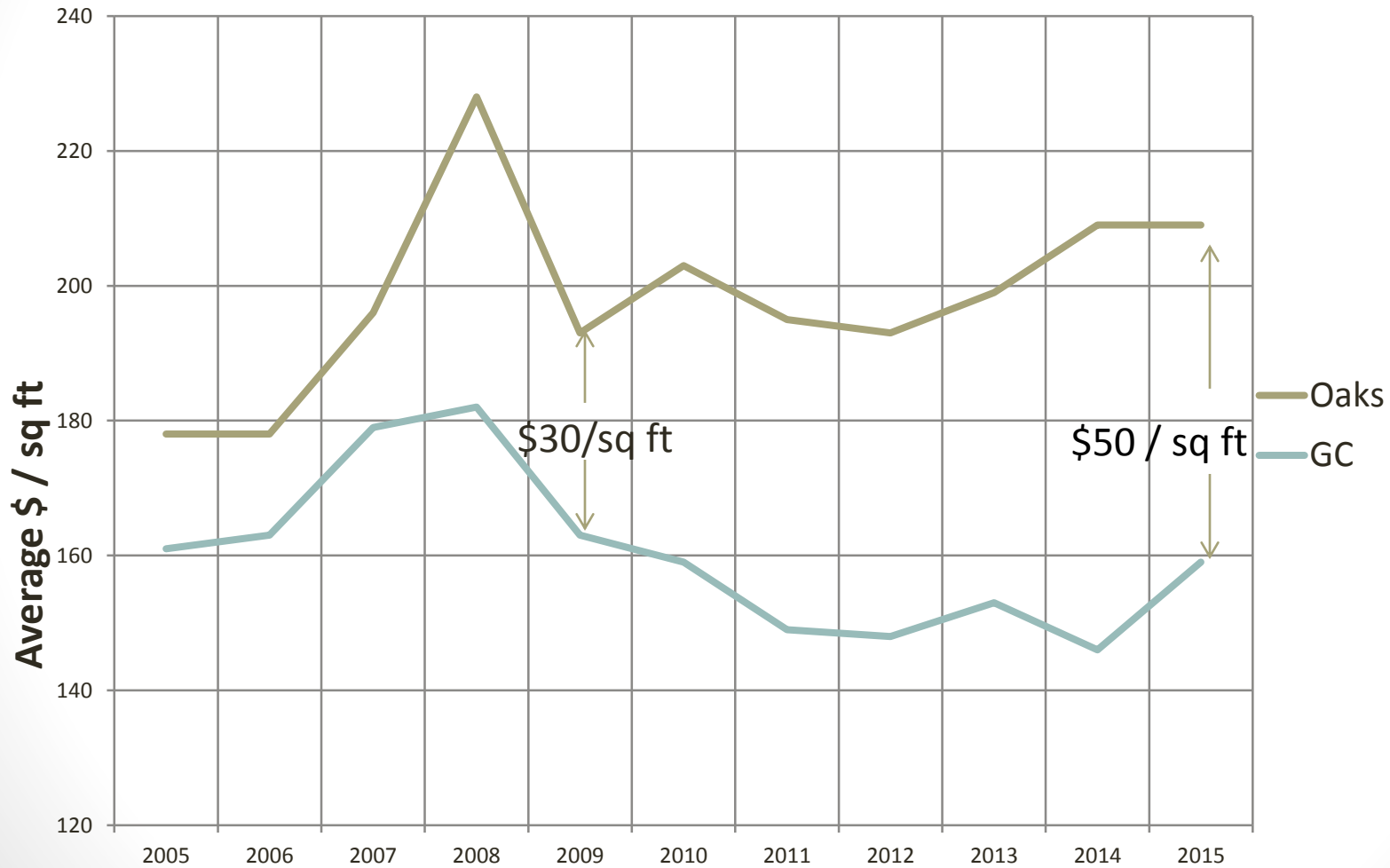
# Committee Conclusion

- No evidence 2015 dues levels negatively affected lower/medium sales more
- The effect of dues increases needs to be closely monitored
- Current method is fair, consistent, and offers equal cost for equal value
  - POA expenses “consumed” by all owners in same proportion per household, not differentially according to tax value
  - Other structures invite a “have/have not” culture
- We can identify no North Carolina community (in over 1,600) that does not use a “flat” dues structure, including those with diverse property values
- Moving to a criterion other than services used (including a tax-based system) introduces legal risks
- The committee found no compelling justification exists to change annual dues structure
- Recommendation: Do not change the GC POA dues structure

# 2015 YTD Real Estate Comparison

			<u>City</u>	<u>County</u>	<u>\$/sqft</u>	<u>DOM</u>
1	Oaks & Meadowmont (Chapel Hill Golf Communities)		Chapel Hill	Orange	231	150
2	Southern Village		Chapel Hill	Orange	197	70
3	Not Oaks & Meadowmont		Chapel Hill	Orange	191	110
4	Oaks and Meadowmont (Chapel Hill Golf Communities)		Chapel Hill	Durham	170	81
5	Governors Club		Chapel Hill	Chatham	170	201
6	Briar Chapel		Chapel Hill	Chatham	153	122
7	Chatham County w/ Chapel Hill address (not golf or Briar Chapel)		Chapel Hill	Chatham	151	108
8	Legacy, Preserve @ Lake Jordan, Chapel Ridge		Chapel Hill	Chatham	141	182

# Average Sales Price: Oaks vs GC



# Other NC Community Dues Structures

Community Name/ <u>Location</u>	Lot <u>Prices</u>	Home <u>Prices</u>	<u>Size</u>	<u>Age of Dev.</u>	Dues Structure	
					Developed <u>Lots</u>	Undeveloped <u>Lots</u>
Landfall Wilmington	\$175K-1.5M	\$300K-3.5M	1535 homes 29 mi. rds	90's	Flat \$2204	100%
Uwharrie Point New London	\$20K-1.1M now listed	\$.4K-1.9M now listed	300 homes 508 lots	90's	Flat \$2020	100%
Carolina Trace Sanford	below GC	below GC	1600 homes 600 lots	70's	Flat \$325	1/6 of budget total
Connestee Falls Brevard	\$10k-100k	\$125k-1.0M	1,357 homes 600 lots	70's	Flat	60%
Cullasaja Highlands	\$300k-1M	\$400k-5.0M	330 homes 10 lots	80's	Flat \$3900	85%
Jefferson Landing on the New River Jefferson	\$100k-150k	homes \$250k-2.0M condos / townhomes \$150k-600k	500 homes	90's	Flat \$1100 Townhome added fees	Moving to 100%
All Communities						
Gated with private roads						
Golf Course w Separate POA/HOA						
POA functions include Roads/Gates/Infrastructure/ARB/varying levels of Appearance						