

**POTENTIAL 2021 DOCUMENT AMENDMENTS**

- 1. Restricting the number of units that can be rented out on long-term (6 month or longer) leases**
- 2. Allowing a restricted number of units to be rented out on short-term (less than six month) leases with Unit Owner contributions to higher Association costs**

These two issues could be addressed separately but the Board's preference would be to address the issues together through a rewrite of section 17.8 of the Declaration if polling results indicate support for such action. The overriding goal of the initiative would be to improve property values for all Vintage Grand owners by making Vintage Grand ownership more attractive to people whose short- or longer-term objective is to reside in Vintage Grand on either a full time or seasonal basis. On the other hand, it is likely that this move could reduce the number of interested buyers of units, as investor purchasers would not consider a Vintage Grand purchase. This in turn could drive property values down as there would be a reduced pool of interested buyers.

Our office records currently indicate that 335 (78%) of our 432 units are occupied by tenants on long term leases that are compliant with our document requirements (minimum of 6 months in duration with all lease applicants and other adult occupants having passed Association background checks). The remaining 97 units (22%) are recorded as either vacant or owner occupied on either a full time or seasonal basis. It is known that some of the units recorded in the above referenced categories are being rented out under arrangements which are not in compliance with the Association's leasing restrictions (e.g., weekly or monthly vacation rentals; illegal subletting of all or a portion of a unit). Management and the Board have been devoting a significant amount of time on efforts to identify and document violations of the Association's leasing restrictions, issue and attempt to collect fines and prosecute the most serious violations through court proceedings.

Property values should increase if more people are both attracted to and capable of owning the type of housing and amenities that Vintage Grand offers. On the attraction side, people who want to both "own a piece of" and "be a part of" a condominium community are more likely to seek out communities that have a high percentage of like-minded owner residents. On the affordability side, the availability of mortgage financing expands the market of potential buyers, resulting in greater competition and higher prices. Currently no mortgage financing is available for people who want to buy a unit in Vintage Grand. This is largely due to policies of the Federal Housing Authority (FHA). That institution currently will not insure mortgage loans to finance purchases in multifamily housing complexes that are less than 35% owner occupied. Their definition for "owner occupied" includes units that are currently vacant or occupied by the owner on a seasonal basis as well as those that are occupied on full time by the owner. If they do not relax that standard (they relaxed it from 50% to 35% in October of 2019) little or no mortgage financing will be available to potential Vintage Grand buyers unless or until we reduce the number of leased units to 65% or less of our total units, i.e. to 280 or less.

In December of 2017, a majority of owners who voted (120 of 220) voted in favor of an amendment to restrict long term leasing by future purchasers of units in Vintage Grand. That

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amendment did not pass because it did not receive the required number of affirmative votes that are needed to approve an amendment to our Declaration document (amendments require affirmative votes from more than two thirds of the members voting at a membership meeting where a quorum of owners are present in person or by proxy)

In February of 2018, we had a total of 340 units that were occupied by tenants on compliant long-term leases. Today we have 335 units in that category. Thus, there has been a notably small (roughly 1%) decrease in the past 2 and ½ years. It is highly unlikely that the number of leased units would ever be reduced to 280 or less through natural economic forces, as Vintage Grand is an attractive investment opportunity for individuals who wish to earn income through property rental. If the Association wants to establish conditions that would make mortgage financing available to future purchasers, at some point in time we will need to devise, pass, and begin enforcing some form of long-term leasing restriction.

Decreasing the number of units that are occupied on long term leases would also be beneficial to the Association in the future when it may be desirable to obtain a construction loan to finance major common property repairs or improvements, so that the work could be completed relatively quickly without having to impose a large Special Assessment on owners. It is not realistic to suggest that passing an amendment in 2021 to restrict long term rentals would aid the Association's current efforts to garner bank interest in a potential 2022 construction loan for the building remediation project. However it is realistic to think that passing such an amendment in 2021 would improve the Association's capability to arrange loan financing for future asset replacement projects for which we have not accumulated sufficient capital reserves (e.g., roof replacement, asphalt and sidewalk replacement) or for potential betterment projects such as expanding and upgrading the Clubhouse, installing heating systems for the pools, removing the Brazilian Pepper trees by the nature preserve area and upgrading the appearance and usefulness of the preserve through tree trimming and removals, grading changes and landscaping improvements. Those betterment projects would require owner approval whether they are financed through Special Assessments or a loan.

If managed correctly, allowing a percentage of units in Vintage Grand to be rented out on a short-term basis could also promote higher property values. Prospective owners who plan to reside in the complex on a seasonal basis could be willing to pay more to purchase a unit if they knew they would have an option to rent out their unit on a short term basis during times when they are not using it. This is something that owners could do relatively easily today using residential short-term rental marketing websites such as Airbnb and VRBO or even general marketing websites such as Craigs List. An important fact is that the FHA guidelines for classifying units as "owner occupied" appear to include the scenario of a unit that is regularly occupied on a seasonal basis by an owner or a relative of an owner and rented out on a short terms basis through services such as Airbnb. Thus, it is very possible that we could get to the FHA 35% threshold faster by allowing a number of current or future owners to do short-term rentals if they pledge to live in their unit a defined minimum annual residency period (perhaps 3 months).

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The key provisions that the Association would need to establish and enforce to ensure that such short-term rental activity would not detract from the quality of life in the community or result in increased costs to the Association are:

- a) Requiring that rentals be no shorter than one month in duration to preclude occupancy of more transient-type visitors
- b) Requiring that owners who are renting out their units on a short-term basis follow specific Association-defined restrictions and applicant screening criteria to control the number and demographic profiles of guests that they allow to occupy their units.
- c) Requiring that owners who rent out their units on a short-term basis cover any increased costs that the Association incurs due to this eg insurance and administration. This might be accomplished by requiring that owners who wish to do short term rentals register each year and either pay an annual registration fee or sign an agreement to document and report their short term rental activity and revenues and pay a percentage of that revenue to the Association on a monthly basis.
- d) Owners who choose to do this should also ensure that they are compliant with any Sarasota County business licensing and vacation tax collection policies.

We would need to discuss the above suggested short-term rental restrictions and fees with our association attorney to ensure that anything that we might attempt does not violate Florida statutes. The board will not initiate discussions with the attorney on this topic unless the 2020 polling indicates a high level of owner support to consider this suggested new approach to the longstanding issue of short-term rentals.

If the 2020 polling indicates a high level of owner support to consider changes in the above two areas, the Board will work with one or more volunteer owners to draft a new version of Declaration section 17.8 that would set a future (e.g., 5-10 year ahead) cap on the number of units that could be rented out on long term leases, establish restrictions on future property sale and lease transactions designed to gradually reduce the number of rental units below that cap, and allow a portion of the owner-occupied units to be rented out on a short term basis with the responsible Unit Owners paying annual fees or contributing a percentage of their rental income to the Association to cover costs that the Association may incur.

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3. **Granting the Association specific authority to approve or deny unit purchase applications based on financial criteria (income verification, credit history, net worth, etc.)**
4. **Granting the Association specific authority to prevent people who have criminal backgrounds from residing at Vintage Grand as a Unit Owner or with the permission of a Unit Owner**

Currently there are no provisions in our governing documents that allow the Association to restrict unit purchase transactions nor to restrict Unit Owner choices on who they allow to reside in their units without a lease arrangement. Other condominium and homeowner associations in Palmer Ranch have such provisions, some of which are rather stringent. If there is interest in emulating the practices of more prestigious associations, we would need to write and have owners approve a new section of our Declaration. The overriding goals of this initiative would be to improve the financial stability of the Association and the safety of all Vintage Grand residents.

As of June 30, 2020, Vintage Grand members collectively owed the Association about \$209,000, most of which was past due assessments plus interest and late fees on those past due assessments. Of that amount, approximately \$141,000 was more than 90 days past due. Those two numbers have increased approximately \$41,000 and \$53,000, respectively, since December 31, 2019. Over 60% of this is due from units which are owner-occupied or vacant, while less than 40% is owed by the 78% of units which have a long-term lease in place. It does not take a great leap in logic to conclude that those numbers would be lower if we had a purchase application screening process in place over the past several years that verified that prospective buyers had the financial wherewithal to meet their long term financial obligations to the Association.

It also does not take a great leap in logic to conclude that the Association should apply the same residency screening criteria to proposed owner occupants and owner-permitted occupants as we now apply to proposed tenants. In other words, ***we should not allow anyone to reside in our complex who has been convicted of manufacturing or distributing a controlled substance (illegal drugs) or of a felony crime involving violence to persons or damage to property. Also, we should not admit people who have been designated by a court as a sexual predator or sexual offender.***

If the 2020 polling indicates a high level of owner support for making the indicated changes in these areas, the Board will work with one or more volunteer owners to draft a new section of our Declaration that would spell out the Association's authority and process for reviewing and approving unit purchase applications, and residency applications for all adults who plan to live in the Vintage Grand complex as a Unit Owner or with the permission of a Unit Owner.

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- 5. Granting the Association specific authority to perform emergency response activities when water leaks and other casualty events occur within units, with Unit Owners responsible for reimbursing the Association for the costs**
- 6. Requiring that Unit Owners purchase and maintain appropriate property insurance coverage or set money aside in a formal self-insurance escrow account to cover potential casualty loss damages**

These two issues could be addressed separately but the Board's preference would be to pursue them together as part of a rewrite of sections 14.1(f) and 18.2 of the Declaration if owner polling results indicate support for such action. The overriding goal of this initiative would be to reduce Association operating costs that are currently born by all owners as a common expense.

Currently, a group of unit owners collectively owe the Association approximately \$13,000 for emergency water damage response and subsequent common area repairs that the Association performed and billed back to them for incidents caused by problems with the water piping or fixtures within their units. Currently the Association's only legal recourse to force payment of those bills is filing a lawsuit against the responsible Unit Owner, which is a time consuming and potentially costly process. A change in document wording that has already been drafted by our association attorney would enable the Association to pursue collection by any method permissible under Florida law, including demanding and collecting payment from a tenant in the Unit and/or recording a Claim of Lien against the Unit to secure the amount due plus interest and prevailing attorney fees and costs and, if necessary, foreclosing on that Claim of Lien in the same manner as we can for overdue assessments.

The Association's ability to receive reimbursement for its emergency response and common areas repair expenses would be further enhanced if Unit Owners were required to purchase and maintain appropriate property insurance coverage or set money aside in a formal self-insurance escrow fund. Under that scenario, the Association could obtain its reimbursement more expeditiously and with less administrative effort than is currently required to bill and exact payment from the responsible owners.

Water leaks are the most common casualty event that the Association is called upon to address but there are other potential casualty events that could have greater economic consequences to the Association and Unit Owners .... for example, a grease fire on a stove that gets out of control and burns through a wall between units (common property) before being brought under control by the building's fire sprinkler system and/or the local Fire Department. The result of such an event would be extensive fire, smoke and water damage to multiple units and possibly to common areas such as breezeways. Again, the Association would feel compelled to step in and perform emergency response and damage mitigation activities even though there is no certainty that it would be able to recover all of the costs of such work from the responsible Unit Owner. If the owners of the damaged units do not have property insurance or other funding sources to make prompt permanent repairs, a portion of a building could remain in a blighted state for months or even years unless the Association acted to make at least the minimum repairs that would be necessary to improve aesthetics and make the building safe to occupy.

Most owners do have property insurance. It therefore seems likely that most owners would support a document amendment that requires all owners follow their lead. The Board believes

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that it is reasonable for the Association to require that all Unit Owners have enough homeowners insurance or a sufficiently large self-insurance escrow fund set aside to cover damage caused by any foreseeable casualty event that could occur within the boundaries of their unit, including any damage that a casualty event inside their unit could cause to other units or to the common areas of the condominium. This would ensure that common areas are protected and that the Association and/or its property insurance carrier does not end up inappropriately shouldering the costs of mitigating and repairing damage caused by Unit Owner or tenant negligence, or by an unexpected failure of plumbing, electrical wiring, appliances, fixtures, etc., that belong to Unit Owners. The Association would see reductions in its operating costs derived from lower insurance premiums and lower payments for common area repairs up to the deductible levels specified in the Associations' insurance policies. This requirement for insurance coverage is in place in other condominium associations.

If the 2020 polling indicates a high level of owner support to make the indicated changes in the above areas, the Board will work with one or more volunteer owners to draft a new version of Declaration sections 14.1 and 18.2 to address the above issues. Such document changes would help expedite payments for appropriate emergency response and damage mitigation activities after casualty events occur and reduce both the Association's and other Unit Owner's administrative burden when attempting to obtain appropriate compensation from the Unit Owners who are responsible for a precipitating casualty event.