

# THE IMPORTANCE OF AN HOA RENTAL POLICY

You might wonder, though, why an HOA rental policy is even necessary in the first place. To understand the reason, you must first understand how homeowners' associations work.

A homeowner's association is responsible for maintaining the community. An HOA does this with the primary goal of preserving property values. And unrestricted rentals can affect property values in a negative way.

When owners are given free rein on rentals, they can basically do whatever they want. They can rent out their home to any number of tenants and for as often as they like. Tenants are also given the freedom to do anything as they please.

You can easily see how this can impact the community as a whole. Owners may feel alarmed because their neighbors keep changing. When there are more strangers in the community than permanent residents, people are less likely to feel secure. When tenants don't face any consequences for violations, they are more inclined to commit them.

Additionally, tenants tend not to apply the same care to the property and the community as owners would. This can result in poor property maintenance and reckless handling of communal items. Such actions can lower property values in the community.

At the heart of it, an HOA rental policy is designed to protect the association and its property values. If your community does not have one yet, then you should take the necessary steps to come with one as soon as you can. This way, you can ensure owners feel secure and property values remain high.

Managing a homeowner's association can come as a challenge, especially when rentals are involved.

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The community may suffer when the homeowner's association allows rental units. Renters may bring crime and vandalism to the community because they're not as invested in the property as owners are. They may not put in much effort into home maintenance and repairs. In the end, renters may make the community unsafe and less livable, eventually pulling the property prices down.

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There are several reasons why your Board might impose and enforce a rental restriction policy. We've already noted the main one, and that's keeping property values high. Simply put, HOAs want to sustain community standards, and that can be hard to do when renters are constantly parading in and out.

This is just one of several reasons to consider a ban on rentals, some additional reasons include:

- Limits on property rentals can help keep the association's liability insurance rates in check.
- Restrictions on rentals can also increase the likelihood that lenders will provide loans for new properties in the community. (If a high percentage of homes are being used as rental properties, real estate lenders will be much more hesitant to get involved.)
- Rental limitations can also increase stability in the community, as there will be a lower turnover of residents.
- Renters may not follow the rules of the community, or care about upkeep and maintenance standards as much as homeowners. This can lead to an increase in compliance violations.

These are just a few of the reasons why a homeowner's association may determine that restricting rentals is an appropriate course of action.

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- Resident owners can enjoy the community with other resident owners and are less likely to experience the negative aspects of living in a rental dominated community.
- Home values stay higher because of a higher ratio of owner-occupied units to rentals.
- Violations of rules and regulations would likely be more frequent with more rentals, as renters are not as invested as homeowners.
- Rental homes may not be maintained as well because renters typically don't have the same reason to keep up a property as an owner would.
- Possible higher costs for insurance with a high ratio of rentals.
- Possible difficulties in getting funding from lenders or having to settle on a higher loan interest rate because of too many rental units in the community.

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Not all renters are bad. Nonetheless, homeowner associations often experience the following problems with renters:

- renters tend to violate association rules more often than owners,
- renters often have more calls to the police than owners,
- renters & landlords are less inclined to invest in the upkeep of their property,
- short-term leases create high turn-over with increased security issues,
- landlords are less likely to volunteer to assist the community,
- landlords have a higher delinquency rate,
- a high percentage of renters depresses property values,
- lenders recognize the problems associated with renters and are less inclined to loan or will lend at a higher interest rate in communities with a high percentage of renters.

The insurance industry has also recognized the problems associated with renters and takes notice when the rental percentage reaches certain levels (it varies, depending on several factors). Many preferred carriers have set limits because claims histories show that associations with high rental populations tend to have more claims. As a result, associations with excessive rentals are charged higher premiums for their HOA liability insurance, etc. Lenders may also ask for the percentage of rentals in a community, since a high percentage of rentals tend to depresses the overall market values.