November 16, 2021

Treasurer's Update
For Immediate Release

Our board of directors has approved the 2022 budget and it will be available soon on your AppFolio portal.

This has been a difficult year for all of us, especially the owners in Building Four that are still waiting to occupy their units. Although we continue to face challenges, much of the financial uncertainty has been resolved as we near the completion of the recovery. This budget will look much different than the previous budget, requiring more explanation.

In January as the new board began working on the recovery, we were also tasked with converting the previous management company's financials to Vacasa's accounting system. This was made very difficult because of the inaccurate and incomplete records available to us and Vacasa. We essentially had nothing but bank statements from 2020. Vacasa did the 2020 year-end close and under reported insurance proceeds by $1M. The new board uncovered a wire fraud of more than $1M in January 2021. We soon recovered 100% of the loss but faced the challenge to change management companies and transition once again to a third accounting system—all within a few months. Today we are supported by Virtuous Management's accounting group, and we have placed controls that will minimize the risk of fraud in the future while accurately reporting our financial history. As an association, we must never again accept substandard accounting and a lack of financial control.

Last year the previous Board decided to accelerate the Hardie board project, essentially moving the remaining work and expense scheduled for 2021 into 2020. This decision helped us survive the storm in better shape, but the work wasn't funded in the 2020 budget—a loan of $400,000 was executed. The board assumed they could make up the deficit in 2021 and repay the loan. They could not have foreseen the destruction and overwhelming costs the association would incur by Hurricane Sally, or the liability created by depleting our reserves before a catastrophic event. The previous board decided to take $400,000 of insurance proceeds and pay off the loan.

We began 2021 with more than $5M of damage exceeding our insurance proceeds and short $400,000 of hurricane insurance money already spent on non-hurricane related expenses. We were challenged to make a full recovery with only two methods to recover funds--assessments, and HOA fees. The great challenge was to find a way back to solvency. We could have assessed everyone about $23,000, feeling good that we didn't assess $100,000 like several complexes on the beach. We decided to work harder to find alternative solutions and only assessed a few thousand dollars, on average.

During this year we continued to conserve cash from lower operating expenses driven by builder's risk insurance at a lower cost. We chose to conserve more cash already reserved for insurance by electing to finance insurance monthly at historically low interest rates. We took about $600,000 of rewiring cable and related expense not covered by insurance and spread that cost over 13 years by entering a wraparound contract with Secure Vision. That additional cost, about $20 per month per unit added to HOA fees is reflected in the 2020 budget. In less than four years Harbor will be replaced by Secure Vision as our content provider. We have outs if we choose to pay off the wiring balance.

We've been forced to make tough and sometimes unpopular decisions to close the financial gap created by the hurricane and now we must make the same tough decisions with the budget. The resort we get back in 2022 won't be the same resort we lost in 2020.

One of the biggest responsibilities of the board is maintaining the property. After the tragedy in Florida all HOA boards, insurance providers and contractors have realized a heightened sense of responsibility to make sure we continue to provide a safe environment for our owners and guests. We are also compelled to have the discipline to maintain our property, ensuring we protect owners' equity. We have retained an experienced professional to create a reserve study for the association, identifying future liabilities, timing of mitigation, cost, and impact on our reserve allocation. We already know we have a substantial liability with windows and sliding doors in B1, B2 and B3. During reconstruction we have identified dry rot in some first-floor units that will be addressed in the study. We have potentially $100,000 in repairs to the west pool at some time in the not-too-distant future. In anticipation of these costs, we have increased our reserve allocation by $120,000 in 2022.

Other costs have increased as the level of quality and service has improved. We are budgeting $50,000 more for security, but the cost remains below historic levels when we were managed by First Service. We gain some offset with lower property management fees.

Our base insurance cost is the single largest expense of the association. When the largest expense increases by the largest amount it's an ugly outcome. Our insurance will increase from $449,000 in 2020 to a yet to be determined number in 2022. We won't know the cost to insure Building Four until its complete. The value of the building will be significantly more at a time insurance cost is skyrocketing. Because we have seen insurance costs balloon in the past before coming down when competition enters the market, we are removing base insurance cost from our HOA fees and recognizing it as an annual assessment paid monthly. This will accomplish two things; our published HOA fees will appear lower and more competitive to prospective buyers and, it will prevent future boards from retaining our money should insurance costs decline by being forced to adjust the assessment to actual each year. We are using $1,000,000 as a placeholder. When the actual number is determined we will reset the expense to actual and adjust the assessment cost. To put this in perspective, the insurance assessment of a 3 bedroom condo at Kiva Village valued at $380,000 has increased to $1,000 per month.

When we remove base insurance from our HOA fee schedule the 2022 HOA fee will be about 17% less than in 2021 (2B $498 and 1B $332). We are assessing $330 and $220 respectively each month for insurance on 2-bedroom and 1-bedroom units and $110 for commercial units.

Starting January 1, 2022, your monthly bill for HOA costs will now be composed of an HOA fee and an insurance assessment. When you do the math, you'll see the ugly truth that the cost of maintaining a condo here has gone up almost 40%. The good news is future budgets should be far more stable and possibly even less if insurance comes down as expected. We also need to understand that the value of our condos has and will likely continue to increase dramatically in the short term after the completion of B4. The rebuild unlocks pent up value and inflation in real-estate continues to make our condos a good investment. You might be surprised to learn our condos once sold for nearly $400,000 each in 2006. At the time annual rental income from an average unit at Plantation was less than $14,000 a year suggesting the economic value was about $140,000. The rule of thumb for short term real-estate valuation is ten times cashflow if you can find it. The difference was the bubble before it burst. Today, many of our condos generate over $30,000 of cash bringing a fair economic value of more than $300,000. As inflation continues and demand shows no sign of declining, it's reasonable to think that we can raise our rates 10%, 20% to as much as 30% next year. I've personally taken my 2022 spring rate up about 15% and raised the summer nightly rate more than 20%.

I'm old enough to remember great advice given to me as I coped with hyperinflation of the 70's and early 80's in my role as sales manager for a large appliance company. My boss told me I was in the very best place to ride out and even benefit from inflation. He told me the people that get hurt the worst are those that don't own assets that appreciate and are on a fixed income that doesn't rise as fast as inflation. He said the best position to be in is where you simply pass the price increase on to the consumer and give yourself a raise because you're on commission. Today, as owners of condos we have three choices--sell out, absorb the cost, or pass the cost on to the renters that don't own a condo on the beach. I think the best place to be is owning a condo that goes up in value with the ability to pass on cost increases to your renters. If you raise your rates, this increase, as difficult as it is to swallow, won't have much impact. If you don't rent your condo out it's going to be more expensive to keep a place at the beach. Whether we rent or not, our condo's will continue to appreciate in value, our association will return to solvency with nearly $1,000,000 in reserves early next year, we'll have a plan in place to preserve our equity and we'll have this nightmare behind us.

I wish you all the happiest of Thanksgivings!

Bill Shaw
Treasurer
The Resort at GSP