

Sun City Carolina Lakes

Prospective Home Buyer Briefing

Subjects to Understand in Making an Informed Decision

Summary:

1. A lifestyle
2. What you would own
 - ⇒ A fractional “ownership” of one (possibly 2) nonprofit corporations that in turn own(s) and operates all the common property that surrounds your “island”.
 - ⇒ Detached home
 - ⇒ Townhome (Villas)
 - ⇒ Condominium (The Carriage Homes)
3. Financial
 - ⇒ Purchase price, reflective of comparable sales
 - ⇒ Ongoing stream of payments
 - Operating costs
 - Reserves costs

A Lifestyle

Sun City Carolina Lakes is targeted to and supportive of active adults: folks over 55 years of age who are and want to be active in their later years.

If you purchase here, you will pay about 25% to 35% more than what you would pay for a comparable house in the surrounding area. That “up-charge” is the value other buyers are willing to pay in order to live in a community that is composed of adults with many diverse, yet common interests, primarily in the form of activities and/or amenities.

If you want to live at home, watch TV, spend time alone at the arts or library, or are otherwise a “loner”, you will be paying a lot of money for a lifestyle you might not be using.

If you enjoy socializing, entertaining, being entertained, being active, having friends that share your heritage, values, and life, you will find the perfect fit here. The vast, vast majority of current owners are very happy with their decision to buy and live here.

What you would own:

1. To begin, you would be buying into ownership in what is known in real estate as a Common Interest Owned Property or "CIOP". This CIOP is a South Carolina nonprofit corporation called Sun City Carolina Lakes Community Association (sometimes referred to as the "Master Association" or just 'the HOA'). You will own a share of this corporation proportionate to the total number of dwelling units in the Association, planned to top out at 3,172. There are currently about 2,627 dwelling units here, growing by about 20 a month. In general, the Association controls and operates all the property that is not owned by individual owners. It is responsible for maintaining the property, operating all the amenities, collecting fees to pay its operating costs, and providing for reserve funds to be put aside (from a portion of your monthly dues) for future replacement of what are called "components" (e.g., buildings, sidewalks, tennis courts, pickleball courts, furnishings, and on and on.)

The Association is governed according to "the governing documents." These consist primarily of the Articles of Incorporation, the By-laws, and the Covenants, Conditions, and Restrictions ("CC&R's). Without going into a lot of detail, these documents allocate virtually all power to the developer during what is known as the development period which will end when development is completed. Currently, there is a five member board of directors, all Pulte employees, all appointed by the Pulte officer in charge of the Charlotte Division of Pulte. The current board policy is to conduct its meetings in secret, not communicate in any form with any owner, and deal exclusively with owners through the property management company, FirstServices Residential.

Currently, you will have no vote and no voice in governance of the Community Association. Pulte has announced that it will expand the board to 7 seats and allow owners to elect 3 members in 2014. However, they will not surrender control of the board until the last house is built and sold.

There are three physical types of dwelling units to be considered. These are:

2. Free-standing, detached houses on a lot of land that goes with the house. You would own the building, the land immediately surrounding the building. The first roughly 12 feet in the front of the house is owned by Lancaster County as part of the public right of way. However, the HOA is responsible for all maintenance of that property as if it were common area.

You will be responsible for the insurance, maintenance, and replacement of all parts of the building, inside and outside. The exception to maintenance is currently care of the lawn and the originally installed shrubbery in front of the house, but that could be changed by the board of directors in the future.

The outward appearance of the property is strictly controlled by the Association under the "Architectural Standards" provision of the CC&R's (see

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previous). You will need the Association's permission to make ANY changes to the outward appearance.

You will be free to make changes within the building as long as they are in conformance with building codes. (Currently South Carolina has adopted the International Residential Code, 2009 and 2012)

Detached house owners pay monthly dues (\$189 at this writing) to the Association to support the costs of maintaining their "house line" lawns and landscaping, the common area landscaping, and to operate the various amenities.

3. The second option you may purchase is a dwelling unit joined with a common wall with 2 or 3 other units which comprise a building. These are called "Villas" or in municipal code lingo, "Townhomes". Villas are entirely within a specific neighborhood (sometimes referred to as a "Pod.") There are currently about 273 Villas units spread out over four neighborhoods.

If you purchase a villa, you will be buying a subdivided piece of property on which is a subdivided dwelling unit. You will also be buying a sort of "maintenance agreement" on the "outsides" of the unit.

Under this agreement, the Sun City Carolina Lakes Community Association will be responsible for insuring, maintaining, and replacing the outsides of the structure itself, specifically the roof (but not the underlying rafters), the sidewalks, the siding (but not the windows), gutters & downspouts, drains, soffit, and stone pointing, etc. (This is a summary and is NOT all encompassing - see the specific supplement for the detailed legal language.). You will be responsible for insuring, maintaining, and replacing the structure including insides. The insurance purchased by the Association is designed to "marry" with insurance that you must purchase in order to ensure that your total investment is protected.

Unlike the insides of the detached home, you would not be permitted to change any of the internal walls or attachments without the permission of the Community Association. If you do, these changes will be called "improvements" and you or successor buyers will be responsible for them in perpetuity.

The Villas owners pay the Master Association monthly dues for use of all the common amenities. However, because the landscape of the Villas is considerably smaller than that of detached houses, landscape maintenance is less expensive than detached houses. Villas owners now pay \$147 for use of the common amenities PLUS an additional monthly fee of \$119 to pay for the costs specific to the villas, the largest being liability and property/casualty insurance – about 40% - followed by landscaping at 24% and reserves for replacement of components averaging about 22%.

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At the time of this writing, Pulte has no Villa units for sale and no public plans to build more. There are of course, re-sales in the normal course of the community.

4. The third option would be to purchase a dwelling unit in the Carriage Homes condominiums. There are currently 62 condominium units in eight separate 2 story buildings located in one neighborhood called “the Carriage Homes”.

Carriage Home units are part of what South Carolina calls a “horizontal property regime” – a separate nonprofit company - called the “Carriage Homes at Sun City Carolina Lakes Community Association.” This separate association was set up to own the entire “shell” of each building and it is responsible for – oversimplified - the “outers” or shell of the building from the interior paint line out to the outside edges. That includes the building structure, roofs, siding, gutters and downspouts, soffits, etc. (Again, this is a summary and is NOT all-encompassing - see the specific supplement for legal language.)

The Carriage Home owners each own a share of this separate association, which was created in a separate document called the carriage homes master deed. When a purchaser of a Carriage Home unit closes his contract of sale, he or she becomes a signatory to this document.

Owners own the “innards” from the paint line inward. They also are responsible for the costs of replacing the windows.

The Master Association (NOT the Carriage Homes Association) owns and is responsible for the insurance, maintenance, and replacement of the property physically surrounding the buildings. The costs of maintaining that property are common expenses of the Master Association and come out of the Master Association monthly dues that all Sun City owners pay.

If you purchase a Carriage Home Unit, you will not be permitted to make any changes to any attached component within the unit without the permission of the Carriage Homes Association.

Carriage Home owners now pay the Master Association \$147 a month for use of all the common amenities. They pay no fee for landscaping because the landscaping is all common area. They also pay the Carriage Homes Community Association a separate monthly fee (estimated) of about \$135¹, most of which goes to cover liability and property/casualty insurance (about 42%) and reserves for replacements (about 28%).

Pulte’s original filing that created the Carriage Homes was for 78 units. There are currently 62, four of which Pulte has retained to rent for short term “vacation getaways.” The other 16 units, designed to be built on 8 lots, don’t exist. Pulte has announced their intent to build them, but no timetable has been

¹ Budget for 2014 has not been approved as of this date

made public. There is currently a dispute between the current owners and Pulte over these plans.

Financial

As a buyer in this CIOP, you should become informed about the finances of the Association, as the condition of the Association has a direct bearing upon the value of your property. Although the vast majority of HOA's in the US are well managed, the real estate world is riddled with tales of individual HOA failures, with disastrous consequences to the individual owners. HOA's are fragile enterprises, with no cushion in their capital. They pay out or reserve virtually every dollar they take in each month. It is very important that they run a "tight" financial ship. Therefore, there are three main questions you should ask:

1. First, what plans or studies have been completed to estimate the future costs of replacing each component of the common property? And how much money did the most recent study say should be reserved now and in the future?
2. How much money does the Association currently have on hand and collecting in its monthly dues to pay for these future replacements? If it has or will have insufficient funds to replace components, you will eventually either face a lump sum "special assessment", OR the component(s) will become increasingly run down and destroy the perceived value of the community AND your property.
3. Finally, how well does the Board of directors budget and control its' spending? If the board isn't collecting sufficient dues (usually because of pressure from a minority of outspoken owners to keep dues low), it must cut corners and the property will slowly deteriorate. If the board is overspending its dues income, you will face a special assessment or a jump in dues at some point in the future. Either one of these will significantly reduce the value of your property in the form of a reduction in the price buyers are willing to pay when you eventually dispose of your property.

The price you should pay for a dwelling unit is the "fair market value". Most real estate agents can give you a lot of good information about sales of comparable units in comparable neighborhoods. These are your first and best guide. But be aware that your costs of ownership will include a flow of dues to pay the Association's operating and reserve costs over however long a period you own the unit. You will have virtually no personal control over the level of these costs. If there are any currently existing shortfalls in reserve funds, OR if there are future unexpected increases in the operating costs of the Association, you will be forced to pay your share or if you fail to do that, having a lien placed on your unit. If you are informed, and if you have good factual data, you can negotiate shortfalls, if any, into the price you are willing to pay for your unit at the time of purchase.

Per the By-laws of the Sun City Carolina Lakes Community Association (Article 3.18, para (p), you are entitled to copies of the CC&R's, the Articles of Incorporation,

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By-Laws, Rules & Regulations, and the annual financial statements of the Association. If you are considering buying a resale, you are entitled to two disclosure statements from the seller describing the property, per South Carolina law. You are also entitled to a complete set of the aforementioned documents from the seller. You can also ask for the current year's budget. Get them, read them, and ask questions. Understand. Persist. Talk to current owners. Go to the Informed Owners web site, WWW.SCCLGIO.ORG. You can only make an informed decision when you are informed.