



THE CONDOMINIUM BUYER'S HANDBOOK

The Michigan Department of Labor & Economic Growth created the Condominium Buyer's Handbook as required by the Condominium Act (PA 59 of 1978, as amended). This edition includes Public Act 385 of 2002 amendments.

PREFACE

The Condominium Buyer's Handbook is a guide for people who are interested in buying a condominium. For your protection, you should read this booklet before you sign a purchase agreement. This handbook contains a summary of portions of the Condominium Act. Although the information is directed primarily toward residential condominium buyers, the Act also covers business, manufactured housing, campground and marina condominium developments. The last section of the handbook describes the legal remedies that are available to you based on the Condominium Act.

The Condominium Act does not give the Department of Labor & Economic Growth authority to enforce or regulate any provisions in the bylaws for condominium developments or the Condominium Act. Although the Department of Labor & Economic Growth is the designated administrator in the Act, the Legislature repealed the Department's regulatory and enforcement responsibilities in 1983.

The Department of Labor & Economic Growth will forward a copy of a complaint received regarding a developer of a condominium project to the developer, along with a notice of available remedies in the Act. Contact:

**Michigan Department of Labor & Economic Growth
Office of Policy & Legislative Affairs
P.O. Box 30004
Lansing, MI 48909
(517) 241-4580
www.michigan.gov/dleg**

You can use the above website to access the Act, Administrative Rules (R 559.202 et seq.), Frequently Asked Questions, Available Remedies, as well as, the Condominium Buyers' Handbook.

The Condominium Act (PA 59 of 1978, as amended; MCL 559.101 et seq.) is also available at www.legislature.mi.gov.

CONDOMINIUM OWNERSHIP

Condominium unit co-owners have exclusive ownership rights to their unit and the right to share the common elements of the condominium development with other co-owners. The condominium subdivision plan, which is part of the master deed, identifies which areas are units and which areas are common elements.

The co-owners own and maintain the development once the developer has sold all the units, unless the local government agrees to take responsibility for maintaining a portion of the development. Roads are an example of a portion of a condominium development that may become public.

The master deed provides the percentage of ownership for each condominium unit in the development. This percentage is the basis for determining your obligation for payment of monthly maintenance fees, assessments for major repairs, and may determine your voting percentage at association meetings. The association of co-owners determines how much the monthly maintenance fee will be and assesses each owner for repairs to the common elements.

READ THE BYLAWS

Read the bylaws for the association and condominium development as they contain provisions outlining your rights and obligations as a co-owner.

You are obligated to pay the monthly maintenance fee and any assessments. If there are no restrictions in the bylaws that place limits on increasing the monthly fee, the association has the right to determine the amount. If the roads, or any other portion of the common elements in the development need repair, the association will determine the amount each owner is responsible for paying. If there are no restrictions in the bylaws regarding assessments, the association has the right to determine the amount. If you fail to pay an assessment or monthly fee, the association may place a lien on your unit.

Modifications or repairs to your unit may require approval of the co-owners association. If you do not obtain approval, the association may take legal action against you.

Before signing a purchase agreement, you should be aware of any restrictions on pets, renting, displaying items outdoors, and other prohibitions in the bylaws. Even if a restriction is not in the bylaws when you purchase, the association may amend the bylaws. Only changes that materially affect the co-owners require a vote of all co-owners.

You may not have the right to attend association meetings unless the bylaws specify that you may attend. The bylaws may not require associations to provide minutes of their meetings to co-owners.

PRELIMINARY RESERVATION AGREEMENTS

A preliminary reservation agreement gives you the opportunity, for a specified time, to purchase a particular condominium unit upon sale terms to be determined later.

The developer must place the payment you make in an escrow account with an escrow agent. If you make a payment under a preliminary reservation agreement and cancel the agreement, the developer must fully refund the money. If you enter into a purchase agreement, the developer must credit the payment toward any payment due in the purchase agreement.

PURCHASE AGREEMENTS

A purchaser may withdraw from a signed purchase agreement without cause or penalty within nine business days as long as the property has not been conveyed to the purchaser. The nine-business day window starts the day the purchaser receives all the documents that the developer is required to provide. The developer must deposit payments made under a purchase agreement in an escrow account with an escrow agent.

Before signing an agreement, it is advisable to seek professional assistance to review all condominium documents.

Some issues to consider before buying include the following:

- **Do not rely on verbal promises** - insist that everything be in writing and signed by the appropriate parties involved in the transaction.
- The bylaws may contain a variety of restrictions. You may be required to receive association approval for certain actions. If you do not obtain prior approval, the association has authority to enforce the legal restrictions in the bylaws.
- You may be subject to a binding purchase agreement before construction is complete. Determine whether the agreement will provide you with adequate rights if the developer does not finish the unit in time to meet the occupancy date.
- You may wish to contact the local government to determine if the developer is contractually obligated to finish the development.
- Review all restrictions, covenants, and easements that might affect the condominium project or your unit.
- Determine if the developer has reserved any rights to alter the project.
- Before signing a purchase agreement, make sure you have financing, or that the agreement specifies it is dependent on your ability to obtain a mortgage commitment for the unit.
- When buying a condominium unit in a structure, you may also be a joint owner of the furnace, roof, pipes, wires and other common elements. Ask for an architect's or engineer's report on the condition of all building components, their expected useful life and building maintenance records.

There is no governmental agency that regulates condominium associations and management companies. Only a judge has authority to order an association to comply with the Condominium Act and bylaws.

DOCUMENTS THE DEVELOPER MUST PROVIDE

The developer must provide copies of the following documents to a prospective purchaser:

1. The recorded master deed.
2. A copy of the purchase agreement and the escrow agreement.
3. The condominium buyer's handbook.
4. A disclosure statement that includes:
 - The developer's previous experience with condominium projects.
 - Any warranties undertaken by the developer.
 - The extent to which financial arrangements have been provided for completion of all structures and improvements labeled "must be built" on the subdivision plan.
 - An itemization of the association's budget.

ASSOCIATION OF CO-OWNERS (CONDOMINIUM BOARD)

Initially, the developer appoints the board of directors, who govern the development until the first annual meeting. The provisions for holding the annual meeting and designating the voting procedures should be included in the condominium development bylaws. The Condominium Act, (Section 52), describes the procedure for transitioning from the developer to the association of co-owners for the governing of the development. (Also see "Election of Association of Co-owners Board of Directors" later in this handbook.)

The co-owners elect the association, which is responsible for governing the development and maintaining the general common elements. The general common elements may consist of hallways, lobbies, building exteriors, lawns, streets (if the roads are private), recreation facilities, heating, water and electric systems. The association may hire a management company to provide services for the development. They also have the right to assess co-owners for repairs. After the creation of the association, the association may adopt bylaws for the operation of the association. Rules governing the condominium development are in the bylaws that the developer created for the condominium development.

A condominium association is a private, not public entity. Meetings of the association are not subject to the Open Meetings Act, which requires public agencies to make attendance at meetings open to the public and requires the provision of minutes that describe actions taken at the meeting.

Associations are required by law to keep books and records with a detailed account of the expenditures and receipts affecting the project and its administration, and which specify the operating expenses. The developer must provide a disclosure statement itemizing the association's budget at the time you receive the master deed.

Associations are required to maintain a reserve fund for major repairs and replacement of common elements. The minimum amount is 10% of the annual budget on a non-cumulative basis. If the association needs additional funds for major repairs, they may have the right to assess each owner. Monthly fees and

assessments are a lien on the condominium unit. You may not be exempt from monthly fees and assessments by nonuse of the common elements or by abandonment of the condominium unit.

If you have a complaint with the association or other co-owners, review the condominium bylaws to determine what recourse you have. Generally, only professional arbitrators or the courts have jurisdiction over complaints between these parties.

DOCUMENTS THE ASSOCIATION MUST PROVIDE

The association must provide a financial statement annually to each co-owner. The books, records, and contracts concerning the administration and operation of the condominium project must be available for examination by any of the co-owners at convenient times. All books and records must be audited or reviewed by an independent accountant annually, but the audit does not have to be certified. The association must keep current copies of the master deed, all amendments to the master deed, and other condominium documents available at reasonable hours to co-owners, prospective purchasers and prospective mortgagees.

SITE CONDOMINIUMS

The term "site condominium" is not legally defined in the Condominium Act. It is used to describe a condominium development with single-family detached housing instead of two or more housing units in one structure.

Site condominium developments must comply with the Act. The Act requires developers to notify the appropriate local government of their intent to develop a condominium project. The type of review the development is subject to depends on the local government's ordinances. Site condominium documents are not reviewed by the State for conformance with the Condominium Act.

Another type of single-family-residential housing development in Michigan is a subdivision which is regulated according to the Land Division Act. Although a site condominium development may look like a subdivision developed in accordance with the Land Division Act, they are not the same. Subdivisions developed pursuant to the Land Division Act are subject to state review for conformance with the Land Division Act. Subdivisions developed pursuant to the Land Division Act must be approved for compliance with the Land Division Act before the developer may sell any real estate.

LIMITED OR GENERAL COMMON ELEMENTS

Common elements mean the portions of the condominium project other than the condominium unit. Limited common elements are areas with usage restrictions. A carport space assigned to a unit is a limited common element. The yard of a single family detached unit, for use by the owner of that unit, may be a limited common element. General common elements such as roads, open space areas and recreation facilities are available for use by everyone in the development. The master deed specifies which areas of your condominium development are

designated as limited or general common elements. Use of the common elements is governed by the bylaws for the condominium development.

ADVISORY COMMITTEE

The advisory committee is established when one of the following occurs, whichever happens first: 120 days after 1/3 of the units are sold or one year after a unit is sold to a non-developer co-owner.

The purpose of the advisory committee is to meet with the development's board of directors to facilitate communication and aid in the transition of control from the developer to the association of co-owners. The advisory committee ceases when a majority of the association of co-owners is elected by the (non-developer) co-owners.

ELECTION OF ASSOCIATION OF CO-OWNERS BOARD OF DIRECTORS

No later than 120 days after 25% of (non-developer) co-owners have title to the units; that may be created, at least one director, and not less than 25% of the board of directors shall be elected by the co-owners.

No later than 120 days after 50% of (non-developer) co-owners have title to the units that may be created, at least one third of the board of directors shall be elected by the co-owners.

No later than 120 days after 75% of (non-developer) co-owners have title to units, and before 90% are sold, the co-owners shall elect all but one director on the board. The developer shall have the right to designate one director only if the developer owns and offers for sale at least 10% of the units, or as long as 10% of the units remain to be created.

If titles to 75% to 100% of the units that may be created have not been sold 54 months after the first conveyance, the (non-developer) co-owners shall elect the number of board members equal to the percentage of units they hold. If the developer has paid all assessments, the developer has the right to elect the number of board members equal to the percentage of units that are owned by the developer.

CONDOMINIUM DOCUMENTS

The condominium documents include the master deed, condominium subdivision plan, bylaws for the condominium project, and any other documents referred to in the master deed or bylaws. In addition, the developer is required to provide a disclosure statement.

Once the association is established, it may adopt another set of bylaws pertaining to the association's operation. The association or management company must keep books and records with a detailed account of the expenditures and receipts

affecting the project and its administration, and which specify the operating expenses.

AMENDMENTS TO CONDOMINIUM DOCUMENTS

If the condominium documents contain a statement that the developer or association of co-owners has reserved the right to amend the documents for that purpose, then the documents may be amended without the consent of the co-owners, as long as the change does not materially alter or change the rights of a co-owner.

The master deed, bylaws and condominium subdivision plan may be amended, even if the amendment will materially alter or change the rights of a co-owner with the consent of at least 2/3 of the votes of the co-owners and mortgagees.

The method or formula used to determine the percentage of value of each unit for other than voting purposes cannot be modified without the consent of each affected co-owner.

A co-owner's condominium unit dimensions or limited common elements may not be modified without the co-owner's consent.

The association of co-owners may amend the condominium documents as to the rental of units or terms of occupancy. The amendment does not affect the rights of any lessors or lessees under a written lease executed before the effective date of the amendment, or condominium units that are owned or leased by the developer.

REMEDIES AVAILABLE PURSUANT TO THE CONDOMINIUM ACT

A developer who offers or sells a condominium unit in violation of the Act is liable to the purchaser for damages.

A person or association of co-owners adversely affected by a violation of, or failure to comply with, the Act, the administrative rules issued under the authority of the Act, or any provision of an agreement or a master deed may take action in a court with jurisdiction. The court may award costs to the prevailing party.

A co-owner may take action against the association of co-owners to compel the association to enforce the condominium documents. To the extent that the condominium documents expressly provide, the court shall determine costs of the proceeding and the successful party shall recover those costs.

A co-owner may take action against another co-owner for injunctive relief or for damages for noncompliance with the terms of the condominium documents or the Act.

For condominium projects established on or after May 9, 2002, the bylaws must contain a provision that disputes relating to the interpretation of the condominium documents or arising out of disputes among co-owners may be resolved through arbitration. Both parties must consent to arbitration and give written notice to the

association. The decision of the arbitrator is final and the parties are prohibited from petitioning the courts regarding that dispute.

A co-owner, or association of co-owners, may execute a contract to settle by arbitration for any claim against the developer that might be the subject of a civil action. A purchaser or co-owner has the exclusive option to execute a contract to settle by arbitration for any claim against the developer that might be the subject of a civil action and involves less than \$2,500. All costs will be allocated in the manner provided by the arbitration association. A contract to settle by arbitration must specify that the arbitration association will conduct the arbitration. The method of appointment of the arbitrator will be pursuant to rules of the arbitration association. Arbitration will be in accordance with Public Act No. 236 of 1961, (MCL 600.5001 to 5065), which may be supplemented by rules of the arbitration association. An arbitration award is binding on the parties to the arbitration.

The Condominium Act provides the right to notify the governmental agency that is responsible for the administration and enforcement of construction regulations of an alleged violation of the state construction code, other applicable building code, or construction regulation.

A person who willfully and knowingly aids in misrepresentation of the facts concerning a condominium project, as described in the recorded master deed, is guilty of a misdemeanor and shall be punished by a fine, imprisonment, or both. Actions under MCC 559.258 shall be brought by the prosecuting attorney of the county in which the property is located, or by the department of attorney general.

A person can not take action arising out of the development or construction of the common elements, or the management, operation, or control of a condominium project, more than three years from the transitional control date or two years from the date of the cause of the action, whichever occurs later. The transitional control date is the date the board of directors takes office by an election where the co-owners' votes exceed the developer's votes for the board members.

A condominium developer may be required to be a licensed residential builder under the Occupational Code (PA 299 of 1980, Article 24, as amended). A complaint for a violation of the **Michigan Occupational Code** or administrative rules, must be made within 18 months after completion, occupancy, or purchase of a residential structure. Conduct subject to penalty is described in the Occupational Code (MCL 339.2411). Complaints concerning construction may be filed with:

Michigan Department of Labor & Economic Growth
Bureau of Commercial Services
Enforcement Division
P. O. Box 30018
Lansing, MI 48909
Phone: (517) 241-9202
www.michigan.gov/dleg

The **Michigan Consumer Protection Act** prohibits certain methods, acts, practices, and provides for certain investigations and prescribes penalties. Complaints regarding an alleged violation of the Consumer Protection Act may be filed with:

Michigan Department of Attorney General
Consumer Protection Division
P. O. Box 30213-7713
Lansing, MI 48909
Phone: (517) 373-1140
www.michigan.gov/ag

LEGAL REFERENCES

Condominium Act, P.A. 59 of 1978, as amended, MCL 559.101 et seq.
Condominium Rules, R559.101 et seq, 1985 Michigan Admin Code.
Occupational Code, P.A. 299 of 1980, as amended, MCL 339.101 et seq.
Consumer Protection Act, P.A. 331 of 1976, as amended, MCL 445.901 et seq.
Stille-DeRossett-Hale Single State Construction Code Act, P.A. 230 of 1972, as amended, MCL 125.1501 et seq.

Approval: DLEG Director
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