Condominium Home Owners Association of British Columbia
Leadership, Education and Resources for strata owners across BC
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What you need to know: Depreciation Reports

What is a depreciation report?
A depreciation report is a mandatory planning tool that identifies the common property, common assets and those parts of a strata lot the strata corporation by bylaw must repair and maintain. (Note that while the Strata Property Act and Strata Property Regulation do not use the term "replacement", the BC Courts have held that "replacement", where warranted, forms part of the strata corporation's repair and maintenance obligations). The depreciation report will address:

1. What assets a strata corporation owns (an inventory)
2. The assets conditions (evaluation)
3. When particular assets are anticipated to need attention (the anticipated maintenance and repair)
4. How much money the strata corporation currently has (contingency reserve fund)
5. What it is likely to cost for future repair and maintenance (a description of the factors and assumptions in projecting costs)
6. How the strata corporation can pay for the anticipated costs (three cash-flow funding models projecting 30 year replacement periods)

Strata corporations in British Columbia are required under the *Strata Property Act* (the Act) to obtain a depreciation report. The Strata Property Regulations (the Regulations) provide the framework for the information required in the report, the requirement that the physical component inventory and evaluation be based on an on-site visual inspection, financial forecasting that must include at least three cash-flow funding models, the definition of who is qualified to prepare the report, and timing requirements for the report.
Strata corporations with fewer than 5 strata lots are exempt from the requirement to obtain a depreciation report.

What time lines apply to depreciation reports?
Strata corporations must renew their depreciation report every five years.

What about strata corporations who previously waived the requirement for a depreciation report?
As of July 1, 2024, strata corporations of 5 units or more are no longer permitted to pass a ¾ vote to be exempt from the requirement for a depreciation report.

Strata corporations without depreciation reports, or depreciation reports received prior to December 31, 2020, will have time to obtain depreciation reports:

- until July 1, 2026, if located in Metro Vancouver, the Fraser Valley, or the Capital Regional District (excluding the Gulf Islands and other islands within the CRD if only accessible by boat or plane), or
- until July 1, 2027, located in all other areas of British Columbia

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Who do you hire to prepare a depreciation report?
Effective July 1, 2025, the Act and the Regulations specify the professions authorized to prepare depreciation reports – they include; engineers, architects, applied science technologists, certified appraisers, certified reserve planners, and quantity surveyors.

Preparing a depreciation report requires technical, financial planning, and management skills. This type of expertise may be difficult to find in one individual. Depending on how complicated and extensive your strata corporation is, this may mean your depreciation report is prepared by a team of professionals rather than an individual. As part of finding the right qualified person to prepare the depreciation report for your strata corporation, it is recommended that a strata corporation:

- review the experience of the person/company,
- obtain references,
- determine the ability to provide errors and omission insurance,
- review samples of past reports completed,
- request a copy of their professional liability insurance to verify current status and coverage, and
- obtain any other relevant documentation that attests to the knowledge and competency of the person/company.

Hiring a qualified person is important as various third parties will be relying on the information contained in the report.

Depreciation reports provide strata corporations with a legislated planning tool for renewals, maintenance and financial planning. The report may become a significant document in assessing property asset value and must be disclosed with the Information Certificate (Form B).

It is important to note that the strata corporation must permanently retain a copy of any depreciation reports under section 35.

The report may be used by insurance providers, mortgage providers, mortgage insurers, and most of all, buyers, for such purposes as determining a buyer's qualifications for a mortgage, establishing risk for insurers, and assisting buyers to determine their future liabilities before they decide to purchase a strata lot. Throughout all of these transactions third parties are relying upon the information in the depreciation report which could result in potential liability for the strata corporation with respect to the accuracy and reliability of information in the report.

What steps can a strata corporation take before they hire a qualified person to obtain a depreciation report?
To save costs and coordinate an efficient and accurate depreciation report, a strata corporation may want to gather all of its records and documents, including following:

- Name and contact information for the strata corporation's depreciation report contact person
- Name and contact information for the strata corporation's treasurer
- Annual operating budget
- Current balance sheet, including the contingency reserve fund (CRF) balance and any investments and other assets
- List of future expenditures to be made to CRF that have been approved but not spent
- Description of common problems
- Copies of invoices relevant to operations, repairs and maintenance
- Current insurance certificates and insurance appraisals
- Any easements/service agreements/air parcel agreements

- Any leases and licenses (enter phone systems, parking garage use, etc.)
- Any agreements granting third party use and access of the strata property
- Prints, plans and drawings – architectural, structural, mechanical, electrical, fire protection and other systems
- Any previous investigation reports: maintenance, repair, building envelope condition assessment, etc.
- Annual fire inspection report
- Maintenance contracts, logs and manuals for mechanical, electrical, elevator, building, etc.
- History of repairs and replacement of common property
- Registered strata plan and any amendments
- All registered bylaws, including bylaws where the strata corporation has taken responsibility for the maintenance and repair of part of a strata lot, and any approved amendments not yet filed in the land title office
- Any information and bylaws relating to separate sections, if any
- Any registered allocations of limited common property (LCP)
- Any alteration agreements where an owner has taken responsibility for the cost of the maintenance or renewal of an alteration to a strata lot, common property or common assets
- Lawsuits or arbitration decisions that impact property use, requiring the maintenance and repair of certain assets
- Copy of any previous depreciation report

The person completing the depreciation report may be required to obtain missing documents. For smaller strata corporations your document requirements may be limited; however, at a minimum, your depreciation report planner will need a copy of the registered strata plan, all registered bylaws and any condition assessment reports, all of which will be important for the initial stages of the proposals and planning.

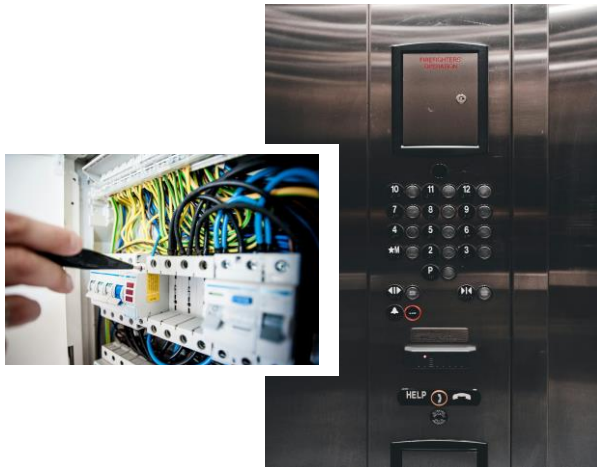
To simplify the depreciation report process, and to assist with accurate long-term archiving of documents, it is recommended documents, including the large scale drawings, be scanned into electronic format if possible, to use when preparing the depreciation report.

What is the duty of the qualified person preparing the report?

The person preparing the report must disclose in the report their qualifications, their relationship with the strata corporation and whether or not they carry errors and omissions insurance, as well as a description of that insurance. Their qualifications have a direct link to their duties under the regulations. The qualified person will be required to:

- Provide an inventory of the strata corporation's common property, common assets, and any limited common property or part of a strata lot that the strata corporation has a duty to repair and maintain.
- Provide an evaluation of the inventory by performing a physical review of the site and the components and understand how various building systems interact.
- Provide an evaluation that addresses the following requirements:
    - Estimate the service life of each of the assets over the next 30 years,

  - The anticipated repair and maintenance costs that usually occur less than once per year,
  - Evaluation of the assets and components thereof (the current condition),
  - Financial evaluation of the factors and assumptions used in estimating the costs over the 30 year period,
  - A description of how the CRF is currently being funded, along with a current balance, minus any expenditures that have been approved but not yet taken from the fund,
  - At least three cash-flow funding models for the CRF relating to the maintenance, repair and replacement over 30 years, and
- Include an executive summary



What skills will be necessary for the person / team / company providing the report?

- The ability to read and interpret technical documents and drawings.
- The education, experience and knowledge to be able to conduct on-site inspections of building components and provide a reliable assessment of their condition and remaining life expectancy.
- A knowledge of building systems, building codes, plus an understanding of material defects, product compatibility, product availability and new technologies.
- An understanding of the basic structure and governance of strata corporations and their legislated obligations for repair and maintenance.
- The ability to understand the common property of a strata corporation with air space parcel agreements, and multiple strata corporations that share joint facilities.
- An understanding of the financial obligations of strata corporations for annual budgets, CRF and special levies.
- The ability to financially project and prepare at least three different cash-flow funding models over 30 years.

How long will it take to complete a depreciation report?

The size, age, availability of documentation and the complexity of the common assets and common property of the strata corporation, as well as the parts of a strata lot that the strata corporation must repair and maintain under the bylaws, will have a direct impact on how long it will take for a depreciation report to be completed. However, it is important that the strata corporation negotiate the time frame for completion before work begins and ensure protocols are in place if the time frame needs to be adjusted. For example, who to contact (council member or strata manager) and how (by email or phone call).

What conditions should a strata corporation consider prior to engaging a depreciation report planner?

Before a strata corporation engages a depreciation report planner, it is important that

the strata corporation ask and understand the answers to the following questions:

- How will the final report be delivered to the strata corporation (electronically, paper format, both)?
- Will the depreciation report planner attend an information session with owners to explain the report? Will this cost extra?
- If the strata council determines changes are required to the depreciation report, how are changes to be addressed?
- How long will it take to get changes back from the depreciation report planner? How much time does the strata corporation have to request changes be made? For example, the strata corporation may only have 1-2 months to review the report and request changes or they may be charged an additional fee to incorporate the changes.
- Get the service agreement in writing.

When must a new strata corporation obtain a depreciation report?

New strata corporations established on or after July 1, 2024 but before July 1, 2027, must get a depreciation report within two years of the strata corporation's first annual general meeting and every five years thereafter.

As of July 1, 2027, owner developers must provide some funding towards the first depreciation report for new strata corporations with five or more lots: a minimum of $5,000 plus $200 per strata lot to a maximum of $30,000.

Accordingly, strata corporations established on or after July 1, 2027, must obtain a depreciation report within 18 months of the strata corporation's first annual general meeting

How frequently is a depreciation report updated?

The Regulations require the depreciation report be renewed every five years. The renewed report must meet the requirements of the Act, include on-site visual inspections and cover at least 30 years from the current date. Be aware that, in addition to your assets having aged since the last report, interest rates, inflation rates, and the cost of items and labour will likely have changed.

Some experts advise that depreciation reports should cover the entire expected life of the building rather than the minimum 30 years required. Such a report may be no more expensive and would give the strata corporation better information to use in planning, saving and equitably allocating costs between present and future owners.

Strata corporations are reminded that they must include a copy of the latest depreciation report with the Form B, and a depreciation report is a document the strata corporation is required to permanently retain.

How do we pay for a depreciation report?
A strata corporation may pay for a depreciation report as an operating expense, by an expenditure made from the CRF and/or by a special levy. Section 92 of the SPA clarifies that paying for and accruing funds to pay for a depreciation report is an operating fund expense. This expense may be included in the annual budget therefore is approved by a majority vote or section 96 allows strata corporations by a majority vote to approve spending money from the CRF in order to obtain a depreciation report or pay for repairs specifically recommended by a depreciation report.

If we are in the process of completing our depreciation report, what information do we include with the Form B?
Section 59 of the Act requires the Form B Information Certificate disclose specific information about the strata corporation and the strata lot. Form Bs are completed by the strata corporation or strata manager. Once the strata corporation has received a depreciation report, it must attach the complete report to the Form B.

Is the initial report received by the strata corporation a "draft report" until all owners approve the report?
The Act and the Regulations do not refer to or use the term draft report in the legislation and the legislation does not require the owners to approve the report. Ultimately, it is the strata council that reviews the report. The strata council may request changes if factual inaccuracies are found. A strata corporation should seek legal advice on the status of a draft report and whether there is any requirement to disclose in response to a request for records under the Act ss. 35 and 36.

What should council do with the depreciation report once it is received?
Once the report is received by council, it is up to council to review it carefully for accuracy that includes all common property, common assets and parts of strata lots that are the responsibility of the strata corporation to maintain, repair and renew.

It is important to note that the depreciation report is not required to be approved by the owners. Check that your report:

- includes a summary of the report (this can be included with the annual budget reports to help owners understand the funding requirements)
- discloses the qualifications of the depreciation report planner/team/company
- identifies the relationship between the depreciation report planner and the strata corporation
- discloses if the depreciation report planner has errors and omissions insurance and a description of that insurance
- includes a complete inventory of all the strata corporation's common assets, common property and any limited common property or part of a strata lot that the strata corporation has a duty to repair and maintain
- provides an evaluation of the inventory
- estimates the service life of the common property and common assets over the next 30 years
- includes a description of how the CRF is currently being funded, along with the current balance, minus any expenditures that have been approved but not yet taken from the fund

- includes at least 3 cash-flow funding models for the CRF relating to the repair and maintenance of the property to be repaired and maintained by the strata corporation over the next 30 years
- details financial evaluation factors and assumptions used in estimating the cost over the next 30 years.

The depreciation report will give the strata corporation a clear picture on what is required financially and operationally in the coming years to maintain the strata corporation. The depreciation report will help strata corporations plan for annual and long term repairs, maintenance and renewals. It will also disclose the financial obligations required now and in the future. However, it is up to the owners of the strata corporation to decide annually on funding and operations.

It is important that owners are provided a copy of the report and that the depreciation planner deliver the report to owners at an information meeting. This will ensure that owners are well equipped to make better informed financial and operational decisions. It is suggested that the depreciation report be incorporated into the strata council operating manual and be attached to annual notice packages for each annual general meeting.

What if a strata council does not agree with the final depreciation report?
Once the report is received, even if the council does not agree with the depreciation report, it forms part of the strata corporation's records. It must be attached to any Form B Information Certificates or any request from an owner until the time an updated depreciation report is completed.

Is a strata corporation required to adopt one of the cash flow funding Models?
The cash-flow funding models included in the report are just examples. A strata corporation may consider other formulas. The purpose of the three cash-flow funding models is to assist strata corporations in understanding the impact of different levels of funding on reserves and how they will apply to the frequency of future special levies. The decision on funding the CRF is up to the strata corporation each year as part of the approval of its annual budget.

It is much easier for the owners to approve an expense from the contingency reserve fund by majority vote than to have to pay for special levies by ¾ vote. Therefore, it is important for a strata corporation to begin funding the contingency reserve fund as it will take a combination of increased long term funding and some special levies to ensure the strata corporation is fully funded.

Remember that strata corporations approve operating expenses on an annual basis as part of the annual budget approval process. Therefore, this is the perfect time for strata corporations to discuss maintenance and repairs and make adjustments to funding as decided by the majority of the owners.

Is there a limit on how much money we can contribute to the contingency reserve fund?
No, there is no limit how much money can be contributed to the CRF.

All strata corporations are required to contribute a minimum 10% of the approved operating budget to the contingency reserve fund. Strata corporations control their long term planning by addressing CRF contributions as part of their annual budget. Given that CRF contributions form part of the annual budget. a majority vote of the owners at the annual general meeting will determine the contribution amount for that fiscal year. Strata corporations may use a funding model provided in the depreciation report or consider an alternative funding model to bring their contingency reserve fund levels up to an appropriate level for their strata corporation. Planning for the financial future of the strata corporation will include investing appropriately to ensure that amortization of funds at least equals inflation rates.

If your strata corporation is proactively saving, please refer to CHOA's investment guide for information on how funds may be invested – bulletin 600-003.

How do we pay for maintenance and repairs recommended in a depreciation report?
The way that strata corporations pay for maintenance and repairs (including renewals) has not changed; they may either raise funds through operating expenses, a special levy or use funds from the CRF. A majority vote is only required for expenses from the contingency reserve fund that are recommended in the depreciation report.

However, a strata corporation may only take advantage of the majority vote if the CRF has sufficient funds.

For this reason, it is recommended strata corporations proactively contribute to CRF. It is easier to pass a majority vote to draw funds from the CRF versus a ¾ vote to approve a special levy and will incur less hardship on the owners and reduce the pressure and cost on a strata corporation to collect unpaid special levies.

What information needs to be in a resolution to spend funds from the contingency reserve fund?
If the strata corporation is spending funds from the CRF by a majority vote, it is strongly suggested that the resolution be detailed enough to ensure the strata council has the authority to spend the funds and enter into the required contracts. In addition, it may be important for the strata to seek legal advice on the resolution. An example of a resolution to approve a CRF expenditure is as follows:

<u>SAMPLE – Resolution to Approve a CRF Roof Expense</u>
The Owners, Strata Plan ABC1234, by majority vote, hereby authorizes an expense of up to $(amount) for the renewal of the (blank roof area) as recommended in the current depreciation report.
Include as part of the resolution:

- description of project;
- consulting such as inspection, engineering, and legal services;
- detail complete scope of services for all work authorize
- estimates to approve the amount required for completion.
- time frame for the projection completion

If your strata corporation requires a special levy under section 108, consult a lawyer in the writing of the resolution to confirm the resolution complies with the requirements of the Act & the Regulations.