

Headline: Understanding Depreciation Reports in BC: What do they tell us?

Topic: Depreciation Reports

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Depreciation reports are a relatively new requirement for strata corporations in BC. A depreciation report, also known as reserve fund study in other parts of Canada, is a planning tool that enables strata corporations to look into the next 30 years of the life of their buildings to have a clear understanding on what the strata is responsible to maintain and renew, when those components and assets will require major maintenance or replacement, and an estimate on how much they can anticipate the cost for those projects when the time comes. The legislation was brought into effect in June of 2011, and became mandatory for all strata corporations by June 13, 2013, unless the strata has 4 units or less, or the strata has passed a three quarters vote resolution. If the strata has chosen to waive the report, they must pass a three quarters vote resolution annually.

Commissioning a report requires the strata to hire a depreciation planner, and while the *Act* recommends the strata retain a qualified person, the *Act* does not specify the minimum qualifications. Most strata corporations have retained engineers, certified reserve planners, architects, appraisers or quantity surveyors who are experienced to produce the report. The report must contain an inventory of all common property and common assets of the strata, and identify the property or assets that are the responsibility of an owner to maintain and repair or to pay for the cost. The depreciation planner must conduct an onsite assessment of the property as they are required to evaluate the components and provide a life expectancy before the component is scheduled for replacement. The real issue facing most strata corporations is the future cost. The report has to include the projected cost of replacing the components and once the report is complete three funding models which essentially examples of how the strata may pay for the future.

Many strata corporations who have commissioned their reports have found them a valuable resource both to help in long term planning, but also in creating annual operations plans for maintenance and repairs. Surveys conducted across the province in 2005 identified the average strata owner contributed between \$11 and \$17 a month to their contingency reserve fund. Considering that many strata developments have appraisal values of 10-50 million dollars, the contributions were barely enough to cover routine emergencies minor repairs. As a result when strata corporations are faced with major repairs the routine has been delayed construction and large special levies. All of which contribute to delays and deferment, which invariably results in unnecessary increased costs. That average contribution has already changed dramatically since 2011, and repeat surveys have shown an increase owner's contribution to \$35-\$70 a month. One of the great benefits of the change in legislation is while we have approved budget contributions by majority vote, we now have the benefit of authorizing contingency funds for recommended depreciation items by majority vote. The legislation has made it easier to save and easier to approve expenses, in hopes the stratas will be more proactive.

Buyers are one of the greatest beneficiaries of depreciation reports. As a buyer you have the opportunity to look into the next 30 years of life of your interested purchase and assess the property value and your future costs. When you obtain an Information Certificate Form B, the strata must include a copy of the most recent depreciation report. Read the report and look closely at the summary schedules. The report should indicate when the next major repairs are due, and the projected cost estimates. This will give you a good sense of your future costs. It will also give you a good sense of how the strata has been managing the property. If there are a number of scheduled upgrades

that are overdue, the strata is likely deferring maintenance. Compare the next major costs with the balance of the contingency fund. If there is a roof of \$500,000 in 2017, and only \$100,000 in the fund, odds are the strata will be seeking a special levy around \$400,000 from the owners in the near future.

Whether you are a strata manager, council member, owner or buyer take advantage of the depreciation report. It is excellent information for planning to ensure your buildings are maintained properly and prevent avoidable damages due to neglected costs and assessing the future risks of the strata corporation.