Condominium Home Owners' Association of British Columbia

Leadership, Education and Resources

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Depreciation Report Updates

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Since 2013, the *Strata Property Act* (the Act) has required a Strata Corporation to prepare a depreciation report. Strata corporations may waive the requirement to obtain a depreciation report by annually passing a 3/4 vote resolution. If the strata corporation fails to approve a 3/4 vote resolution the strata corporation has six months to comply with the legislation and have a depreciation report completed. Strata corporations with fewer than 5 strata lots are exempt from the requirement to obtain a depreciation report. However, it should be noted that being exempt or waiving the requirement for a depreciation report or a depreciation report update does not discharge the strata corporation from the obligation to repair and maintain common property and common assets as required by the SPA

Many strata corporations have seen the merit of a properly prepared depreciation report, and proactively contracted a service provider to prepare a report. Some have used this tool to plan for future expenditures, adjust the funding of the contingency reserve fund, and generally used the information to better understand what assets they own, how these assets age, and how to fund renewals in a timely manner. Now that two or three years have passed since initial participation, these strata corporations are now faced with the responsibility of deciding when and how to update their report.

> "…stratas are now faced with the responsibility of deciding when and how to update their report. "

What Is It For?

A Depreciation Report Update reflects the most recent financial information from the Financial Statements, the current asset inventory (including new assets or renewed assets), updated service lives of the assets, and new funding models based upon expenditures and accruals. Once completed, it replaces the original Depreciation Report for the purposes of disclosure and conveyancing. It also reflects the projects that are planned for the next few years, and the current Owners' approach to saving for expenditures that are planned or may occur over the next thirty years.

When Should It Happen?

The Act requires that a Depreciation Report be updated every three years, unless owners by ¾ vote approve a resolution to waive the update. If owners waive the update they must continue to approve a ¾ vote resolution on an annual basis. If the strata corporation fails to approve a ¾ vote the strata has six months to obtain a depreciation report. It should be noted that a strata corporation must attach the most recent depreciation report when they receive a request for a Form B Information Certificate - if a strata corporation approves a ¾ vote resolution to waive the requirement for a depreciation report at the time of update it could mean the strata will be disclosing old and potentially inaccurate information in the future.

How Often?

While the value of up-to-date information cannot be understated, the optimum frequency at which it is updated will depend on the age of the building and the level of maintenance; the three year frequency would be a practical minimum, but annual updates may be prudent for at least a few years as deferred events are reconciled in mature buildings.

Councils should initiate conversations with the Service Provider six months before the time the original report expires to allow for proper scheduling and review of on-going events.

Why Do It At All?

All buildings are an amalgam of assets that face inevitable renewal through 'forces of retirement'. Forces of retirement are those forces that determine an asset service life, and can be generally categorized as time-based or condition-based, and occasionally obsolescence-based.

A relatively new building may have less need for frequent asset review due to its youth, but it is important to establish the good habits of proactive maintenance and planning for the future, along with establishing the patterns of retirement. It is also important to establish a culture of appropriate funding of major maintenance and renewal, however far off these events may seem. It bears mentioning that even though assets of a very young building may be under warranty, they are still subject to wear and tear, normal or extraordinary, as well as maintenance obligations. Updates can also instill a proactive "culture" of maintenance and funding early in the building's life, when costs are relatively low and spread over time. Updating every three years would be prudent for most young buildings.

> "…it is important to establish the good habits of proactive maintenance and planning for the future."

A more mature building may have some assets with deferred maintenance and renewals or assets that have previously escaped appropriate scrutiny. The forces of retirement that necessitate renewal, be they physical deterioration, obsolescence or aesthetics, can be offset somewhat by proactive maintenance or targeted repair, but inevitably asset renewal will be required. Understanding the extent to which the service life of an asset has been influenced by maintenance or neglect is an important aspect of depreciation reports. A twenty-year roof in ideal conditions might last twenty-five years before the repair costs start to outweigh the cost of renewal; conversely, that same roof under less-than-ideal conditions can need such extensive repair after twelve years of neglect that full renewal is the only practical option.

Here are three graphs indicating the Remaining Service Life against Time, illustrating the value of multiple and frequent reviews:

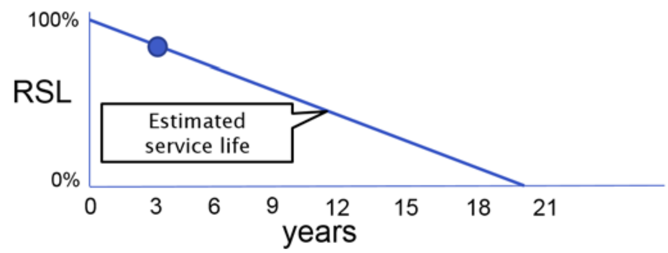

Figure 1: with only actuarial data and one "point" of reference (visual review), the asset service life is modeled on a straight line. (RSL – remaining service life)

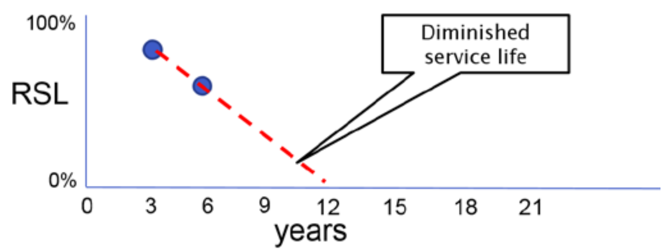

Figure 2: Two "points" of reference from visual reviews may indicate a diminished service life expectation.

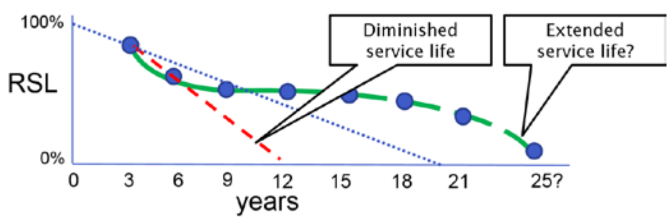

Figure 3: Multiple "points" of reference from visual reviews and condition assessments may help to understand the forces of retirement and allow for proactive intervention, with extended service life outcomes.

Mature buildings can benefit from more frequent or even annual updates initially for many reasons:

- → "catching up" on deferred items will alter the funding projections quickly, and Council needs this information to plan appropriately
- → recording completed projects to reduce backlog will help Owners and potential purchasers to see the improvements,
- → condition assessments information can be assimilated into the body of the report to reflect a deeper understanding of the asset service lives
- → funding of future projects can be modified to suit

As the Owners learn the "rhythm" of their building or complex, the need for frequent updates can abate somewhat, and a frequency that suits the building's patterns can be established and reviewed from time to time.

An interim study can also be a cost-effective way to record progress on significant renewal projects, especially if they involve phased renewal. This is beneficial to the Owners as it may showcase large projects that have been completed within a year or so of the initial depreciation report. An interim study does not typically involve a site visit, but involves recording a previously identified project as complete and providing new funding projections to reflect the adjusted capital expenditures. While an interim report serves a functional need, it is not considered compliant with the Strata Property Act as an Update.

> "An interim study can also be a cost-effective way to record progress on significant renewal projects…"

Who Can Benefit
As stated before, owners in a strata corporation can benefit from the most up-to-date information from which to draw when making planning decisions. They can benefit from current information regarding renewals and expenditures, and adjust or maintain the current funding level appropriately well in advance of the renewal event. The Strata Council benefits from making representation to the Owners with current information and funding models. Perhaps the group most benefiting would be sellers and purchasers, as both can clearly see the balance of accrued funds against the projection of expenditures over a certain timeframe. Purchasers also benefit from the knowledge that the building's good governance is carried out with up-to-date information, which reflects value for investment.

When major renewal activities are recommended, they should almost always be preceded by a condition assessment and a design brief carried out by a qualified building science firm. It is at this stage that scope and costs are refined and the opportunities for phasing or bundling with other renewals are considered. Owners benefit from more accurate costing information that will form the basis for voting on expenditures from the CRF.

How To Move Forward
Contact your current service provider to initiate a conversation regarding timing of the site review and delivery of the Update. If you are changing providers, this should happen well in advance of the expectation of deliverables.

There are a few steps that a Strata Council can take in preparing for the Depreciation Report Update that will ensure a timely and cost-effective process, with optimal outcomes.

Be prepared to provide:

- ☑ the most recent Insurance Appraisal,
- ☑ A current set of the Strata Bylaws with a summary of any amendments that have been made since the last report
- ☑ A comprehensive list of projects or renewals undertaken since the last Report, including
  - ☑ costs of those projects,
  - ☑ warranties
  - ☑ description of materials used
- ☑ A list of projects that have been deferred.
- ☑ Information on any new assets added since the last report,
- ☑ A list of projects that are contemplated by Council in the next five years or so.
- ☑ A current Financial Statement coinciding ideally with the month prior to the site review, including the current balance of the CRF, the operating budget for the period, and the contribution amount for the CRF.

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