

**Condo Smarts**

Headline: Depreciation Report or Reserve Fund Study?  
Topic: Depreciation Reports  
Publication date: Oct 23, 2011  
Publication: The Province  
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**Dear Condo Smarts:** Our strata council is trying to plan and budget for the upcoming regulations that will hopefully require mandatory depreciation reports for strata corporations. We are now in a great debate over what type of report to ask for. Some council members want a reserve fund study, others want a depreciation report, and frankly, the proposals we have all received have different terminology and such different approaches to the report we don't know what is best for our strata corporation. Could you please clarify the different terms reserve fund study versus depreciation report? Carla M. Vancouver

**Dear Carla:** There are many opinions on the scope and range of options that essentially form part of a depreciation report or a reserve fund study; however, regardless of the title, it is more important that the strata corporation obtain the real information they want for planning. Except for those strata corporations who exempt themselves by three quarters vote, depreciation reports will become mandatory for a strata, once the *Regulations* under the Bill 8 amendments of the Strata Property Act are adopted. They have not yet been adopted or published, so it is premature to assume their content or time of implementation.

The purpose of a depreciation report is to establish the declining value of an asset, such as a roof, and determine the cost of replacement and the projected life cycle. So a roof may have 25 years of life on a 55 unit building which is 22 years old, with only 3 years remaining of the performance of the roof, at a total replacement cost of \$180,000. A buyer or mortgage provider would review the document and review that as a risk for a new buyer of a possible 3,000-5,000 dollar liability in the near future. Essentially this is a simple form of a depreciation report, and would include all of the building components for the entire strata corporation. A reserve fund study is a much more extensive document. The study starts with a complete inventory of all of your records, plans, warranties, registered documents, historical maintenance, operations and renewal schedules. Then each of the identified building components undergoes a site inspection to establish the condition of each

component and ongoing service requirements. Next the renewal plan is formulated for council review. The reserve fund study also should include routine maintenance schedules and a financial planning model to assist the strata council in their operations. The maintenance schedules are a critical part of a reserve fund study. If they are properly implemented, the strata corporation is likely to enjoy a much longer life out of their building components and be prepared to proactively replace building systems before they fail. All of which will significantly reduce the overall operating costs for the strata corporation. A perfect example is always hot water tanks in town houses. When do most people replace their tanks, when they fail. The resulting reactive service is frequently a 35-50% additional cost to what could have been a well managed renewal plan. If you apply this concept to all significant building components, strata corporations who executive reserve fund studies and long term plans for maintenance and renewals will enjoy better returns on their investments, fewer reactive failures, and a predictable level of strata fees and special levies for major construction. Simply put, the study should tell you: what you own, your current financial position, when things need to be maintained and replaced, what they are going to cost and how you are going to pay for it. Both the CHOA web site [www.choa.bc.ca](http://www.choa.bc.ca) and the Homeowner Protection Office web site [www.hpo.bc.ca](http://www.hpo.bc.ca) have a number of guides and bulletins to assist with long term planning, maintenance and renewals. Many of the engineering companies in the province will provide quotes for reserve fund studies and depreciation reports at no cost. A basic cost estimate of the cost and scope of services is a great place for a strata council to start. Depreciation reports are becoming an integral part of a buyer's tool box, and are being used by banks and mortgages insurance companies to assess the future risk of their clients. Reserve fund studies provide strata corporations with a critical planning tool for annual budgeting and long term planning.

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