

Condo Smarts

Headline: The Impact of Depreciation Reports on Sales

Topic: Depreciation Reports

Publication date: Aug 18, 2013

Publication: The Province

Written by: Tony Gioventu

Dear Condo Smarts: What happens if a strata corporation exempts itself from the requirement for a depreciation report, but a buyer cannot get a mortgage as a result? I have been trying to sell my unit for the past 7 months with no luck. Our buildings is 36 years old, and while it has been fairly well maintained, we have never had any major upgrades or renewals other than our roof, although we are expecting a few major items like our elevator and piping. The argument that our owners made at our AGM in July was that if we had a depreciation report done, it would come back poorly because we have so much work ahead of us, and that it would affect our property values. As a result, the vote to exempt passed, but isn't that the same effect as not having a report done at all? The result we have now is that buyers and mortgage providers are shying away because we don't have a report, and they are concerned we are concealing something. One of the buyers I spoke with said at the very least, she would like some comfort in knowing when some of the major projects are coming and the estimated costs. At least then she could manage her purchase and budget. I wrote this email in hopes that strata corporations seriously consider the repercussions before they exempt themselves from the depreciation report requirement, before the December 13, deadline. *Elaine B. Victoria*

Dear Elaine: There may be some extraordinary circumstances why a strata corporation considers waiving the requirement for a report. For example, the Strata Property Act & Regulations exempt strata corporations of 4 units or less, but if you are in a 5 unit bare land strata, with no common property other than a roadway, the cost of a report and updates every 3 years could actually exceed the long term cost road maintenance. Alternatively, you could be a 5 unit bare land with a common club house, swimming pool, gardens and extensive in ground services, under ground parking and central boiler, and the common assets would all require detailed long term planning for maintenance and

renewals. It is easy to understand the apprehension of older buildings willing to conduct their reports, but deferring the inevitable just results in greater negative impacts. Depreciation reports are not just about what the condition, life and cost of common property and assets. The report process includes an actual on site review of the condition of your building assets, recommendations for inspections and maintenance cycles, and the financial estimates so your strata corporation can starting planning for the future. I have visited a number of 35 year plus buildings this summer that have conducted major upgrades and commissioned their reports and the results are surprising. While for some, the initial report is often shocking, but for the first time in decades, they have a starting plan that they can manage economically. They have prioritized the renewals, started an inspection and estimation process and have taken control of their building. A 35 year old building is probably due for some major upgrades, regardless of annual maintenance, but knowing what and when is the key to addressing your building issues. A depreciation report is the simply the first step for a strata corporation. Once you have the report in your hands, your next step is to create schedules for annual maintenance and inspections, to insure you have the funding planned in your annual budget and to conduct the annual servicing requirements. It is no mystery to anyone that if you routinely inspect and maintain/service your car, it will last much longer and operate more efficiently. The same conditions apply to buildings. Elevators, boilers & water delivery, electrical vaults, sumps, ground drainage systems, roofing, decks, balconies and patios, window & door systems, parking garages, club house facilities all require regular scheduled maintenance and inspection. Yes the costs will seem steep at first, but over time your strata will be able to control the costs and manage your asset more effectively. This fall, 1 of the CHOA seminars is focused on "what to do next once your strata corporation receives a report". Make the most of your report and develop an operations plan. Go to www.choa.bc.ca for more info and to register.

**For more information on CHOA resources and benefits visit www.choa.bc.ca
or contact the office at 1-877-353-2462 or email office@choa.bc.ca.**

No part of this publication may be reproduced without the prior written permission of CHOA

This publication contains general information only and is not intended as legal advice. Use of this publication is at your own risk. CHOA will not be liable to you or any other person for any loss or damage arising from, connected with or relating to the use of this publication or any information contained herein by you or any other person.