

Reserve Fund Planning

Is your condo doing it right?



When it comes to understanding and maintaining the physical assets of your condominium complex, nothing matters more than reserve fund planning. It is so important, in fact, that provincial and territorial governments have enacted legislation requiring all condo corporations to complete a reserve fund study every three to five years, depending on where you live.

Used to identify foreseeable repairs or asset replacements, and subsequently, to create a funding plan to manage those expenditures as they occur, reserve fund studies are essential tools that contribute enormously to a property's long-term viability and sales potential.

"The most common perception of a reserve fund is that it will ensure there is enough money to pay for major replacements and restoration," observes Ryan Coles, Associate with RJC Engineers, Calgary. "This is true. However, condo owners often don't think about the other purpose of their reserve fund contributions—to ensure they are paying for their fair and proportional share of common property usage."

Anyone who has ever lived in a multi-residential building that was later converted to a condominium will understand the importance of reserve funds, especially if they have found themselves paying a special assessment for new elevators and boilers. As Coles points out: "If you didn't put in enough money to replace a roof by the time it reaches its end of useful life, then how is it fair for you to sell your unit and expect the next owner to foot the bill? Having a poorly prepared or out-of-date reserve fund study can negatively impact

property sales potential when a resident goes on to sell their unit."

Basic components of a reserve fund study

While each province has specific elements that must be included in reserve fund studies, at minimum Coles says the scope of it should include a site walk-through and a review of the following documentation:

- original construction or major renovation drawings
- correspondence with management/board/owners about past and planned capital projects
- maintenance and inspection reports
- bylaws to understand what is included as common property
- and current fund balance and contributions.

"In preparation of the report and funding forecast, the reserve fund reviewer needs to understand the lifecycle data for each common property element, how many of the various elements are present, and the cost to replace or perform major repairs," he explains. "An astute reserve fund planner will have an understanding about what elements could be replaced together to take advantage of efficiencies and cost savings."

As an example, Coles cites flanged vinyl windows and door replacement as something that should happen concurrently with exterior cladding. "Removal and reinstallation of the windows and doors is required to properly detail the moisture barrier during a cladding replacement, and cladding removal is often required to facilitate window replacement," he says. "Yet all-too we see scenarios in which one element was replaced within five years of the other."

Meanwhile, in terms of sales implications, the reserve fund study is one of the main documents reviewed by potential purchasers, therefore the board of directors for the condo corporation should give serious consideration when choosing who will prepare the document.

"If selecting based on price alone, you will get what you pay for," says Coles.

"A poorly done reserve fund study, with unrealistic life expectancies or insufficient budget estimates could leave the condominium corporation with insufficient funds for needed repairs or replacement of common elements, necessitating a large increase in reserve fund contributions or even a special assessment."

Province by province: what's the difference?

According to Coles, each province has slightly different rules about who can conduct reserve fund studies and how often they are required. In B.C., for instance, they are referred to as 'depreciation reports' and they are required every three years. Reserve fund studies in Alberta are required every five years, and in Ontario, it's every three. "One should be familiar with their own provincial Condo Act & Regulation in order to confirm the details of reserve fund requirements," he says.

Risks and impacts of failing to comply

Having a poorly prepared or out-of-date reserve fund study can lead to several consequences for all condominium building stakeholders, including:

- a negative impact on property sales when someone goes to sell their unit
- unrealistic life expectancies or budget estimates
- insufficient funds for repairs or replacement of common elements, necessitating a large increase in reserve fund contributions or even a special assessment.

In short, Coles' recommendation is this: "If you are a condominium corporation, then you require a reserve fund study. All condominium boards across Canada should be engaging qualified consultants to assist them in the review of their common property and preparation of their capital plan. The importance cannot be understated."

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