

DEPRECIATION REPORTS

Now Legislated In BC



The *Strata Property Amendment Act, 2009* deals with changes to the *Strata Property Act*. The new amendments, which were recently finalized, now call for mandatory depreciation reports for strata corporations in British Columbia.

According to the BC Office of Housing and Construction Standards, strata properties make up more than half the taxable properties in a dozen municipalities in British Columbia, housing over one million people. Following the amendments to the *Strata Property Act* in 2009, the Province sought to improve the accountability of strata corporations. The Province consulted groups like the Condominium Home Owners Association of BC (CHOA), legal experts and professionals, focus groups, as well as 1,819 persons who answered a public survey online in February 2011. The overwhelming consensus was that strata corporations must prepare for their ongoing maintenance and future capital expenditures.

The resulting 2011 regulation changes to the *Strata Property Act* now ensure that strata corporations must have a depreciation report and a contingency reserve fund in place. The changes also ensure that the Information Certificate (Form B) provided to a strata purchaser will contain the current depreciation report.

This will be a key change for strata corporations, requiring the completion of a depreciation report within the next two years unless they pass a resolution with an annual 75% vote to exempt the report or the strata corporation is made up of less than 6 units. Over the next few years, this will become a standard document for strata corporations and will be included in the Form B Information Certificate.

The changes to the *Strata Property Act* will be new to strata corporations in BC, but similar legislation has already been enacted in Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Yukon, Northwest Territories, and Nunavut. Ontario's legislation has been in place for 10 years or more.



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WHAT IS A DEPRECIATION REPORT?

Also known as a reserve fund study, the depreciation report is a financial document that includes a detailed breakdown of all the common property components that a strata corporation will have to repair or replace over the next 30 years. It provides the strata corporation with a summary of current deficiencies, future projected capital expenditures, and costs for maintenance of each component. Furthermore, the depreciation report provides a financial plan for the strata corporation to prepare for these expenditures. The report is to be updated every three years and will be an integral part of the strata corporation's long-term planning.

Currently, a strata corporation contributes about 10% of its annual operating budget into its contingency reserve fund (CRF) annually. This is a requirement if the CRF is less than 25% of the annual budget. The problem with this method is that the annual operating budget has absolutely no correlation with the capital costs of replacing components, which was what the CRF

was meant to provide for. This system has led to insufficient funds in many CRFs. For example, most strata councils do not know the age of their roof system, the type, or the cost to replace it. The first indication that it needs replacement is often a leak in the strata units. The depreciation report will provide a proactive approach to this and similar situations to alleviate the uncertainty of timing and cost.

Changes to Section 6.2 of the *Strata Property Act* define the requirements of a depreciation report. These include:

- physical component inventory
- summary of repairs and maintenance
- financial forecasting
- qualifications, errors and omissions insurance, and disclosure for the provider of the report



A poorly maintained roofing system past its economic life can result in costly building repairs beyond the cost of a new roof.

CREATING CERTAINTY FOR BUYERS

As mentioned earlier, another key change to the legislation is the new requirement to the Form B Information Certificate (Section 59.4 of the *Strata Property Act*), as set out in Schedule 2 of the *Amendment Act*. The requirements call for copies of:

- rules of the strata corporation
- current budget of the strata corporation
- owner developer's rental disclosure statement, if any
- most recent depreciation report, if any

The inclusion of a depreciation report will allow buyers to have much more certainty as to the condition of the property and any future special assessments. This certainty is reinforced by the requirement for professional expertise as the *Strata Property Act* specifies that the reports be done by a "qualified person" and that they have professional liability insurance. In other jurisdictions, appraisers, engineers, or professional reserve analysts who have the Certified Reserve Planner (CRP) designation from the Real Estate Institute of Canada must prepare these reports. BC's regulation is quite vague by comparison, but the insurance provision would include members of the Appraisal Institute of Canada, Professional Engineers of BC, and CRP-certified members of the Real Estate Institute of Canada.

Further information about the changes to the *Strata Property Act* and information about depreciation reports can be found at the Condominium Home Owners Association (CHOA), the Province of BC,¹ or from the Campbell & Pound website: www.campbell-pound.com.

¹ www.housing.gov.bc.ca/strata

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Mr. Coley-Donohue has been a member of the Appraisal Institute of Canada since 1997, and has been accredited since 2003. He has also been a designated (RI) member of the Real Estate Institute of British Columbia since 2004. He is a member of the British Columbia Expropriation Association (BCEA), and the International Right of Way Association (IRWA). He is a graduate of the Langara College Realty Appraisal Certificate program (1995).

Mr. Coley-Donohue has been active in the Vancouver Chapter of the Appraisal Institute of Canada since 2004, and has been Co-Chair since 2009. He was also Co-Chair of the AIC's national conference committee in 2007. He is married, has two grown daughters, and enjoys walks all around our wet coast.

