

Understanding depreciation reports

BC legislation now requires stratas to have one... how do they benefit both owners and buyers?

By Tony Gioventu

Depreciation reports are a relatively new requirement for strata corporations in BC. A depreciation report, also known as a reserve fund study in other parts of Canada, is a planning tool that enables strata corporations to look into the next 30 years of the life of their buildings. It gives you a clear understanding of what the strata is responsible to maintain and renew, when those components and assets will require major maintenance or replacement, and an estimate on how much you can anticipate the cost for those projects when the time comes. In BC, legislation was brought into effect in June 2011 and became mandatory for all strata corporations by June 13, 2013, unless the strata has four units or less, or the strata has passed a three-quarters vote resolution. If the strata chooses to waive the report, owners must pass a three-quarters vote resolution to that effect annually.

Commissioning a report requires the strata to hire a depreciation planner. While the Strata Property Act recommends the strata retain a qualified person, the Act does not specify the minimum qualifications. Most strata corporations have retained engineers, certified reserve planners, architects, appraisers or quantity surveyors who are experienced to produce the report.

Inventory of assets

The report must contain an inventory of all common property and common assets of the strata, and identify the property or assets that are the responsibility of individual owners to maintain and repair or to pay for the cost. The depreciation planner must conduct an onsite assessment of the property as they are required to evaluate the components and provide the life expectancy before each component is scheduled for replacement.

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to include the projected cost of replacing components and provide three funding models – essentially examples of how the strata may pay for the future expenses.

Long-term planning

Many strata corporations have found their depreciation reports to be a valuable resource both to help in long-term planning and in creating annual operating plans for maintenance and repairs. Surveys conducted across the province in 2005 identified the average strata owner contributed between \$11 and \$17 a month to their contingency reserve fund. Considering that many strata developments have appraisal values of \$10-50 million, the contributions were barely enough to cover routine emergencies and minor repairs. As a result, when strata corporations are faced with major repairs, the norm has been delayed construction and large special levies. This contributes to delays and deferment, which invariably results in unnecessary increased costs.

That average contribution has changed since 2005, and repeat surveys have shown an increase in an owner's contribution to \$35-\$70 a month. One of the great benefits



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of the change in legislation is we now have the benefit of authorizing contingency funds for recommended depreciation items by majority vote. The legislation has made it easier to save and easier to approve expenses, in hopes stratas will be more proactive.

Buyer benefits

Buyers are one of the greatest beneficiaries of depreciation reports. As a buyer you have the opportunity to look into the next 30 years of life of your interested purchase and assess the property value and your future costs. When you obtain an Information Certificate Form B, the strata must include a copy of the most recent depreciation report. Read the report and look closely at the summary schedules.

The report should indicate when the next major repairs are due, and the projected cost estimates. This will give you a good sense of your future costs. It will also give you a good sense of how the strata has been managing the property. If there are a number of scheduled upgrades that are overdue, the strata is likely deferring maintenance. Compare the next major costs with the balance of the contingency fund. If there is a roof cost of \$500,000 in 2017, and only \$100,000 in the fund, odds are the strata will be seeking a special levy around \$400,000 from the owners in the near future.

Whether you are a strata manager, council member, owner, or buyer, take advantage of the depreciation report. It is excellent information for planning to ensure your buildings are maintained properly and to prevent avoidable damages due to neglected costs and assessing the future risks of the strata corporation.



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