



Repairs, retrofits, renovations, reserve funds, maintenance fees. Our industry experts weigh in on financial issues that are the bane of condominiums.

Let's Talk Money

One of the most important and often volatile issues in condominium governance and management is the dollars and cents. Whether it's yearly operating budgets, the balance in the reserve fund, a badly needed refurbishment, or an increase in maintenance fees, money makes the condominium go round. We asked a cross-section of ACMO Associates and ACMO 2000 executives to share their industry experience and reply to the following question: What's the biggest financial challenge you encounter in condominium management and condominium corporations? Here are their replies.

Developer Budgets and Second Year Financial Surprises

Under the current *Condominium Act*, there has been flexibility in what a developer has to contribute to the reserve fund. Consequently, many corporations are surprised once a reserve fund study is completed and the requirement for substantial contributions is realized.



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Historically, the developer has contributed between 10% and 25% of the

operating cost during the first year after registration. The more reputable developers have used the higher percentage or have recognized, that once a reserve fund study is completed in the first year after registration, there would be a shortfall and included a requirement on the closing of the units to have a contribution equal to one month's maintenance fees; this money can then be transferred to the corporation's reserve fund at the end of the year should there be an excess operating surplus.

In most cases, there are no budget shortfalls during the first year, as many

components of the budget are covered under warranty or there are incentives given during the first year of operations (i.e., elevator contracts). This adds an element of surprise during the second year of operations to the extent that expenses are justifiably higher than the previous year. In addition, most developers do not budget for sufficient items such as security, cameras and adequate lighting. New board members face the problem very quickly and have no choice but to increase monthly common element fees. This coupled with the results of the first reserve fund study can

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produce substantial increases in condo fees in the second year. The effect, in a lot of cases, is a backlash from other condo owners who right away feel the board must not be doing a good job of administering their finances.

Paul A. Chisholm, president
Berkley Property Management, an
ACMO 2000 Certified company

Kicking the Can down the Road

Boards and managers are reluctant to be the bearers of bad news; instead they avoid the big common element fee increase and hope the financial situation will improve with time. The fact is that most financial problems get cured with a money injection, and fester without it. In a year or two, the problem has worsened and there is no choice – an even bigger increase has to be implemented. Now the board and manager are forced to explain the problem, its cumulative nature, and why they didn't act at the time the problem was first recognized.

When a significant common element fee increase is needed, the board and the property manager need to work together to put through the required increase, and to develop an effective way of communicating the decision. Sometimes kicking the can down the road works for condos and governments, but most of the time it results in regime change!

Glenn Daurio, partner
Daurio and Franklin LLP

The High Cost of Energy

One of the biggest financial challenges facing the condominium corporation at present is the uncertainty of escalating energy costs. Between huge utility rate increases that have become a yearly norm, the most recent carbon tax on the gas utility, and global warming producing unpredictable weather patterns, it is nearly impossible to budget accurately for utilities. In the case of new buildings with no historical data, this task becomes even more difficult.

Another important challenge for new buildings, especially 'green' buildings

is the inherited debt that developers include in the corporation's declarations such as guest suite mortgage, an emergency generator loan, tri-sorter agreements and specifically a green loan (for green buildings).

Provisions for reserve fund contributions are usually key factors when deciding to increase in C.E.A. (common element assessment) fees. However, when the manager has to deal with unpredictable utility costs and corporation loans as well, it makes annual budgeting extremely difficult.

Shahram Seradj, president
Times Property Management Inc., an
ACMO 2000 Certified company

Adequate Reserve Funds in Older Buildings

Large capital expenditures in older buildings – usually for major repairs and replacements of the common elements – where the condominium may not have built up a proper reserve fund. The absence of a proper reserve fund likely results from a lack of legislative requirements for much of the life of the buildings and a lack of political will by boards of directors to allocate money from operating accounts to the reserve funds.

The *Condominium Act*, 1998 ("New Act") governs condominiums in Ontario and came into force on May 5, 2001 replacing the *Condominium Act*, RSO 1990 ("Old Act"). The Old Act did not have any reserve fund requirements. As such, the New Act addressed the lack of reserve funds in older condominiums by giving them 15 years to build solid reserve funds. Since the 15 years expired in May 2016, older buildings should examine their reserve funds and ensure they are adequately funded.

Brian Horlick, partner
Horlick Levitt Di Lella LLP (with Luis
A. Hernandez, articling student)

Underfunded Reserves

As has been the case for more than 40 years, condo owners who think good management is measured by low maintenance fees and low reserve fund contributions are doing themselves and future owners a huge disservice by laying the foundation for financial, physical and emotional trauma in the future.

Our studies for CMHC have demonstrated that underfunded reserves not



only erode property value, but also reduce the quality of life for residents who have to try to catch up years later. Once owners and

their boards recognize that they are only interim custodians of the property and they must continue to invest in it, they can then begin to realize its true value now and in the future.

Jerry Genge, P.Eng., principal
GRG Building Consultants Inc.

Pressure from Outside Sources

Condominium corporations are under tremendous financial pressures from a variety of areas but the most significant are from the three levels of government and from regulatory agencies (mandated by governments) such as Technical Standard and Safety Authority (TSSA), Electrical Safety Authority (ESA), Workers Safety Insurance Board (WSIB) etc. Each time a government or an agency proclaims a law or changes a regulation, owners in a condominium building must pay a higher condominium fee. There is a new carbon tax, minimum wage has increased to \$11.40, hydro and water rates continually rise, all requiring increases to your common fee. The new *Condominium Act* may provide some additional benefits to owners but this will not be free. Owners will have to pay for the establishment of the Condominium Authority and for the cost of administering this new agency. The management of condominiums is becoming increasingly complicated and time intensive and this places enormous pressure on maintaining common fees at a livable level, so owners can enjoy their home.

Tony Seljak, president
Summerhill Property Management

Budgets

I believe I speak for many property managers that any issues financially related will turn into a problem eventually, if it hasn't already. Anything as simple as collecting common element fees or as controversial as working out an



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hurdle that we face.

From my experience, I find that the biggest financial challenge we've faced is one that encompasses nearly every aspect of property management: the budgeting process. Everyone's happy when your building is in the black but when we live in a world of ever-increasing costs and elastic consumers, the apparent solution isn't always the most agreeable one. Not only does this pose a financial problem but it becomes a political one as well. On top of all that, our managers commit to maintain this balance day-in, day-out, all while providing our highest quality of service to unit owners and board members alike.

Mimi Yung, RCM

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An Engineering Perspective

Rather than doing the necessary replacement of a major common element, I often see boards continuing to

undertake repairs long after its expected service life has been reached. The repairs



may indeed buy some legitimate short-term relief, but cannot be expected to be a long-term solution. As such, when the replacement

finally takes place, the overall costs are more (due to the multiple repairs) and there's been more disruption to the owners.

I also see operating budgets that, to keep common fees in check, are set too low. Consequently, routine common element repairs that should be paid from the operating account are taken from the reserve fund. This "nickel and diming" from the fund is a subtle erosion which can lead to underfunding and higher than expected reserve contributions. Boards and property managers should be aware that with the proposed *Condominium Act* revisions, the duration for extraordinary reserve fund contribution increases will likely be limited.

Kim Coulter, B.Tech. (Arch.Sc.) ACCL, FCCI

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