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Total Amount Payable
VAT 19%
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Current Name
Street Name 1
70000 City Name
+TAX
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Banks and lenders provide numerous financing options for corporations considering significant repairs or renovations.

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Top Considerations

for Deciding between Special Assessment, Loan or Deferring a Major Project

A condominium corporation with major repair or remediation needs and not enough Reserve Funds is faced with difficult decisions. Here are some of the important questions the board should consider if faced with the tough choice between special assessment, loan or deferral:

1. ***What impact would a special assessment have on the condominium community?*** Each owner will be impacted differently by a special assessment, particularly a large one. Some owners may have the money to pay for the special assessment, either through savings or borrowing. For other owners, the impact of the special assessment may create financial hardship. In the worst-case scenario, owners unable to pay the special assessment may be forced to sell their property for less than market value, and this can negatively impact the value of all condominium units. If a special assessment is spread over time, the board needs to be mindful that the increased monthly payment might cause problems for homeowners renewing their mortgage during this period.

2. ***Should the existing owners pay the full cost of the major project while also paying for the future replacement?*** With a special assessment the owners are paying the full cost, while also paying for the future replacement of the same component through the Reserve Fund contributions. A loan through the condominium corporation matches the cost with ownership, and whoever owns the unit is responsible for the loan repayment, while also benefiting from the work that has been done.

3. ***If we delay the repairs/project, how much should we expect the costs to increase on an annual basis, and how does that compare with the cost of borrowing?*** Some boards decide to delay or phase-in the work in order to accumulate enough money in the Reserve Fund. The costs associated with deferring work need to be considered. As a general rule, construction costs in the GTA are expected to increase by 2% per year (based on the construction price index), but in reality the cost of doing

the same work in the future can be much greater. In addition, some projects have very high mobilization and administrative costs that are incurred each time the project site is set-up or taken down. In today's low rate environment, the costs are likely increasing at a rate higher than you are earning on the money in your Reserve Fund. Other costs to consider include ongoing maintenance and repairs, the cost of further damage and the potential lost savings (i.e., energy).

Sometimes it is actually cheaper to borrow to do the work now in as few phases as possible, rather than spread out the project (complete window replacements can be a good example).

4. How much would a loan option increase the monthly fees and how does this compare with other condos in our area? Experienced lenders can help a board determine what your condominium fees would look like under various loan scenarios. The corporation may be in a situation where their condo fees are maintained at current levels or a level comparable to similar properties in the area. This allows the condominium to leverage the loan and complete the necessary repairs without reducing the market value or attractiveness of the units due to high condo fees.

5. Will the contractor and/or manufacturer offer a discount to do all the work in one or two phases instead of staggered over a longer period of time? In general, contractors want to get more business now, and they may be willing to discount their price to complete the job in a shorter timeframe. This can translate into material cost savings for the corporation.

6. What is the community's tolerance for construction? Renovation or repair projects are disruptive to the community. Consolidating and combining projects can reduce the amount of time residents need to live through "the construction zone."

7. Are there other planned projects that could be grouped together at the same time to help keep condo fees as low as possible in a borrowing scenario? A corporation should evaluate the impact to the future funding needs if necessary major projects are moved forward in time. The impact to the future condo fees may be surprising; a corporation that has completed their most expensive projects has much different reserve funding needs than a corporation with big projects on the horizon.

8. Would the owners be supportive of a loan if they have the choice to pay the special assessment while other owners could participate in the loan? Regardless of rationale, some owners may always just want to pay a special assessment. Specialized lenders can guide the corporation through a process where some owners can choose to pay a special assessment, and other owners can access a loan through the corporation. The critical step in this process is appropriately communicating with the owners so they are well-informed.

By asking the right questions and exploring all the available options, a board can make an informed decision, that best fits the needs of the corporation and the owners as a whole. ■

Ryan Griffiths and **Pierre Sauvé** are financing specialists with CWB Maxium Financial, the leading provider of financing for major repair and remediation projects, equipment and mechanical systems, energy retrofits and guest / super suites to condominiums across Canada.cwbmaxium.com