



# Use Human Behaviour in Finance to Manage the Decision-Making Process

By Matthew Solda

Every individual is exactly that... an individual. We all come from varied backgrounds of unique experiences that form who we are, what we value and why we do the things we do. We want to feel included, understood, appreciated and most of all heard. This is why when you are trying to finance a retrofit project in a condominium, it takes more than telling people what needs to be done; you have to convince them it needs to be done!



To help you understand this complex world of both finance and human behaviour, we have integrated behavioural economic principles into the decision-making process with six easy steps that will help you smoothly advance retrofit projects while maintaining an integrated and inclusive condominium community.

**1. Engage relevant industry professionals early.** We do not know what we do not know.

In the early stages of a retrofit project you will find that many directors, owners and property managers fall victim to their own biases before they understand the problem.

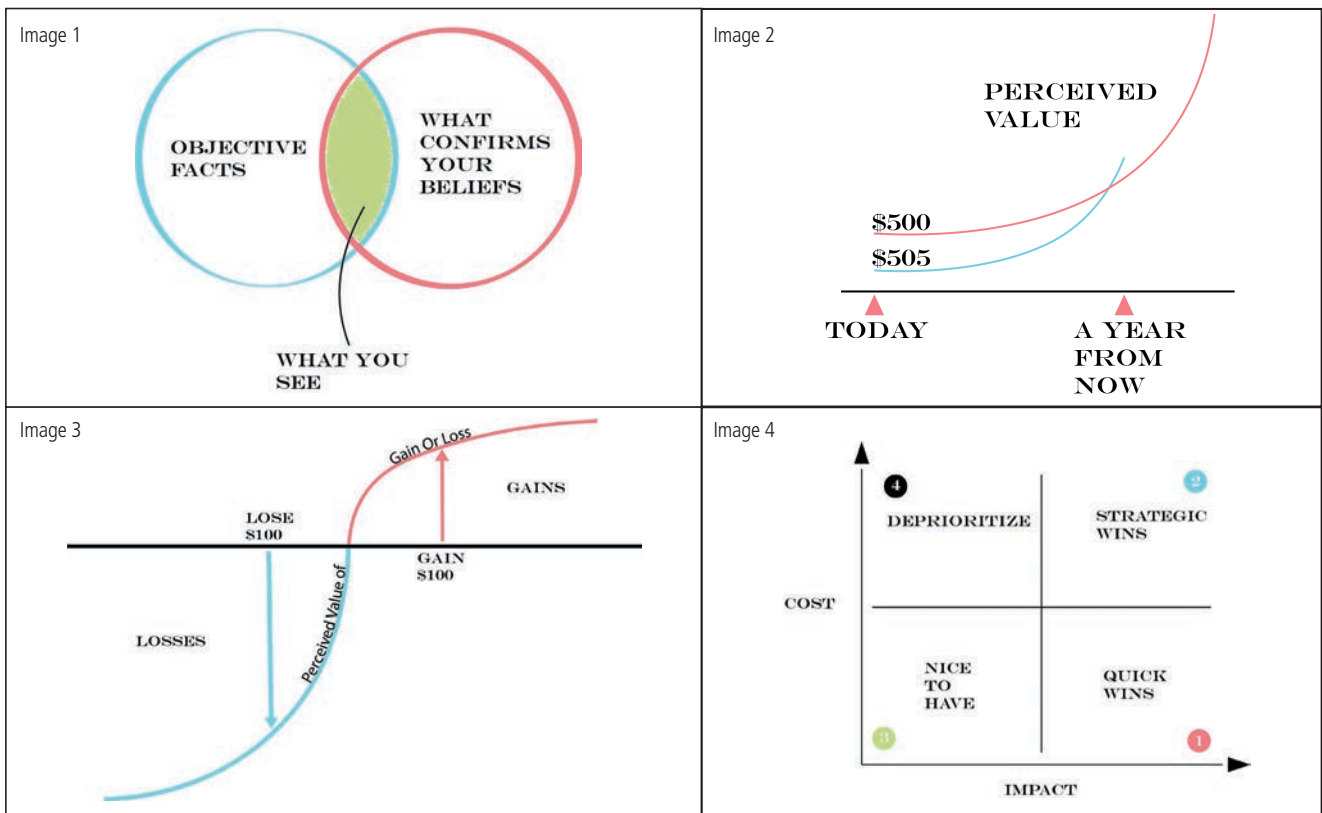
One of the common biases we tend to see is known as “confirmation bias.” Most individuals are subject to confirmation biases where they search for, interpret, focus on and remember information in a way that confirms their preconceptions. Often this bias will take over because we fail to ask the right questions about new concepts and our own beliefs (Image 1).

The financing and completion of retrofit projects is invariably unique from project to project and so, requires the expert advice of lawyers, engineers, contractors, and financial institutions to understand what processes and timelines are involved in their completion.

Directors should not only speak with, but also invite, all relevant third-party experts to discuss the project implications with owners early to help them overcome their own biases. By doing this, the directors can avoid stumbling into a situation where confirmation bias takes over, and a simple misunderstanding halts a project.

**2. Understand current/ future financial obligations.** Our financial decisions inconsistently change over time. Would you rather receive \$500 today or \$505 tomorrow? Would you rather receive \$500 in a year or \$505 in a year plus one day? In scientific testing individuals overwhelmingly choose \$500 today and \$505 in a year plus one day from now. This type of decision-making is known as dynamic inconsistency or temporal discounting and shows diminishing returns to perceived value over time (Image 2).

With many retrofit projects outside the purview of what reserve fund monies can be used for, it is essential to outline the



financial baseline, potential counterfactual and expected outcome of the project. Where the financial baseline is the current state of finances, the counterfactual would be the future financial obligations if the retrofit did not occur including higher expected energy costs or increased maintenance costs in some cases, and the expected outcome where energy savings or future earnings potentials and other non-monetary benefits are described.

Laying out all the possible scenarios will provide for a holistic view of the situation and allow for an objective decision-making process to take place as recommended in Step 6. This evaluation should outline the impacts and costs of the project(s), both monetary and non-monetary.

**3. Communicate the project impacts to the owners.** It is thought that the pain of losing is psychologically about twice as powerful as the pleasure of gaining (Image 3).

We see this aversion to loss play out in our lives every day when we try to make smart money decisions. We hesitate to make a decision that deviates from the status quo because deciding presents the possibility of making the wrong decision. By framing the project from a perspective of loss, the likelihood of approval may be increased.

**4. Determine sources of project funds.**

If the reserve fund monies are not available for the retrofit project, the financing will be drawn from either the budgeted annual expenses of the corporation, an assessment to the unit owners, or where necessary a loan obtained from a financial institution. Loan availability is subject to implementation by both legal and financial institutions who should be engaged in Step 1 of financing a retrofit project. All options, including their financial outcomes, should be presented to the unit owners. By engaging outside financial professionals early, creative solutions that combine the three options can be developed to match the needs of the entire condominium population.

**5. Determine project timelines.** Not all projects are alike and so, with strategic planning, the burden of the financing of these projects can be reduced or deferred. By laying out the timelines for project start and completion with your financial expert – an appropriate financing scenario can be derived that minimizes impact to the owners.

**6. Identify which projects to pursue first.** Often a corporation will have many projects which require completion and will need to be prioritized. The best way to analyze the priority of projects is through the development of an impact cost matrix (Image 4).

This matrix lays out the potential projects on a 2 by 2 grid where the projects should be pursued in ascending order. By laying out the projects with owners in such a manner, it is easier to cohesively determine the priority for pursuing such retrofits as one person's priority may not be another's.

By following these six steps, you will be providing a holistic service to owners and bringing together what can at times be a disjointed population. Often the frustration experienced while pursuing one of these projects is simply the result of misunderstanding and miscommunication. By opening the communication channels and applying simple behavioural decision-making concepts, the next retrofit should be to everyone's benefit! ■

**Matthew Solda** is the director of CondoCorp Term Financing with Morrison Financial. Matthew obtained his MBA from the Rotman School of Management and is a civil engineer. He has worked across financing and human behaviour roles in a consultative capacity and is now a specialist in providing financing to condominium corporations for the major repair or replacement to common elements. [Morrisonfinancial.com](http://Morrisonfinancial.com)



# To Keep or Remove Common Area Furniture?

By Tricia Ashcroft



This question is raised more often these days by building owners and property managers when their building is visited by fire inspectors. Understanding your responsibility for fire safety and taking steps to mitigate risk is important.

In early 2018, the Office of the Fire Marshal and Emergency Management invited the public to comment on proposed changes to the Ontario Fire Code intended to address furniture in corridors and lobbies. As of the writing of this article, the Ontario Fire Code has not been modified to reflect the proposed changes or comments. However, fire departments continue to visit buildings and issue orders to

modify or remove furniture in corridors and lobbies.

In this shifting landscape, it is a valid question to ask “is furniture permitted in lobbies and corridors?”

## Two Regulations

At a high level, there are two Codes governing the design and use of buildings in Ontario: the Ontario Building Code and the Ontario Fire Code.

The Ontario Building Code (OBC) contains a set of minimum technical requirements for design and construction that address safety, health and accessibility among other objectives. Fire safety is specifically addressed and includes items including construction type, fire resistance ratings, fire protection systems, exits, etc.

The Ontario Fire Code (OFC) contains minimum requirements for the ongoing maintenance and use of a building, for example fire hazards, emergency planning, flammable and combustible liquids, testing of fire protection equipment etc.

These documents are complementary and are intended to work together to ensure buildings are safely designed and remain safe during use.

## Furniture During Building Design

With very few exceptions, all buildings are anticipated to be furnished to some degree. While the OBC does not regulate furniture, it does consider how buildings are intended to be occupied and used by categorizing them by major occupancy type.

The OBC includes thirteen major occupancy classifications, including residential occupancies (Group C). There are different requirements and permissions for each occupancy to address the risk posed by the anticipated use. Requirements such as noncombustible construction, fire resistance ratings, sprinkler protection, and floor area design vary to reflect the required level of protection to address the risks of the anticipated use.

Residential occupancies inherently

require furniture to fulfill their function of providing sleeping accommodation and living areas. So while the OBC does not mention furniture; furniture is unquestionably part of the intended occupancy and use of any building.

### Corridors and Lobbies During Building Design

Furniture is not prohibited in corridors under the OBC, in fact Sentence 3.3.1.9.(5) states, "If a corridor contains an occupancy, the occupancy shall not

reduce the unobstructed width of the corridor to less than its required width". Furniture is an occupancy. To contrast, exits are not permitted to serve any other purpose except as access to floor areas, so exits clearly are not permitted to contain furniture.

Exit stairs are permitted to discharge through a lobby, often referred to as an "exit lobby". Just as exits are not permitted to be furnished, the conventional application of the OBC for exit lobbies is that furniture is not located in an exit lobby. However, if a lobby is not an exit lobby then furniture is not restricted provided it does not otherwise obstruct the egress paths.

### Furniture in Corridors Under the Fire Code

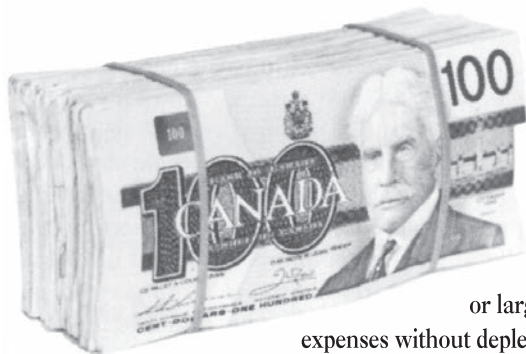
There is currently a move from fire departments to investigate furniture in corridors in residential occupancies, and to require upgrades or removals of furniture. From experience, municipal fire departments commonly reference the "accumulation of combustible materials" provision in Sentence 2.4.1.1.(2) of the OFC for current enforcement activities for furniture in corridors:

Combustible materials shall not be *accumulated* in any part of an elevator shaft, ventilation shaft, **means of egress, service room or service space**, unless the location, room or space is *designed for those materials*. [emphasis added]

The language in this provision is open to interpretation. In particular, there is no clear definition of what is meant by "accumulated". In our judgement, where furniture is provided and arranged in a manner consistent with its expected use, it is not an accumulation. On the other hand, stock piling increasing amounts of storage or debris that is not directly related to the use of the space would be more consistent with the common use of "accumulated". An accumulation of combustibles is a potential hazard in the event of fire.

There is also a lack of deep understanding of what it means for a space to be "designed for those materials". With respect to design, the OBC provides the minimum requirements for various uses (major occupancies), as previously discussed.

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If building documentation (approved permit drawings, fire safety plan, etc.) shows furniture, it is clear that the space was designed for that use. Even in the absence of furniture on drawings, judgement may be applied to areas of the building labelled or intended to be used as congregating spaces, such as corridor alcoves and recesses, or lobbies (not exit lobbies) where it is common to have a couch or a few chairs for occupants to wait or rest.

The application of the OFC requires a degree of judgment and an understanding of the building's design under the OBC applicable at the time of construction.

It is important to note that the current OBC does not retroactively apply to existing buildings that are not undergoing renovation or change of use, and that the OFC only applies once the building is constructed.

### Fire Department Inspections

Under the Fire Protection and Prevention Act (FPPA) a fire official may inspect your property for

the "purpose of assessing fire safety" (FPPA, Sentence 19.(2)). At the discretion of the fire official, written notice, either through a Notice of Violation or an Inspection Order, may be issued to address fire safety concerns.

If you receive written notice for furniture in a lobby or corridor, or indeed any other issue, it is important to take immediate action. If you are unsure about the contents of the order and how it applies to your building, it is your right to ask for a review. In fact, the FPPA details a formal process of review by the Fire Marshal when an Inspection Order is issued. The critical point is not to wait. The request for review must be submitted within 15 days of the order being served (FPPA, Sentence 25.(1)). The FPPA also allows "aggrieved persons" to apply for an extension in time for resolving items on an order if there are reasonable grounds for the extension. Applications for extension in time must be submitted within 30 days of the order being served (FPPA, Sentence 25.(3)). The fire department's decision is final, pending the outcome of an appeal.

### Summary

Property managers, consultants/designers and fire departments have different roles in keeping buildings and the people within them safe. Fire inspectors are knowledgeable about the OFC requirements for life safety and should be respected for their work; particularly if they provide you with written notice of safety concerns identified within your building. Their role is to identify where an item may be in noncompliance, and to review submitted information to confirm if the item is resolved or requires further action. If you are questioning how, or if, a concern raised about furniture in a corridor or lobby applies to your building, don't delay. Seek advice and exercise your right to review.

**Trisha Ashworth** is a Code Consultant with the Code and Life Safety Group of Morrison Hershfield (MH). MH provides Building Code and Fire Code consulting services to clients across Canada and also provides Fire Protection Systems Engineering. [morrisonhershfield.com](http://morrisonhershfield.com)

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