Lyndsey McNally, OLCM, LCCI
CWB Maxium Financial

New and Old, Different but the Same

Despite the age of a condominium corporation, the common issue is that financial shortfalls directly affect the individual owners within the community. When inflation and interest rates surpass income growth for most individuals, overcoming this challenge is more difficult.

Having a duty to repair sometimes means boards must make decisions that can directly cause hardship to some within the community. Condo boards may struggle to make unpopular decisions, which puts increased pressure on condominium managers to guide them through the planning process. Condominium managers that do this effectively recognize the importance of communication throughout the process with the boards, professionals, and owners.

Sometimes, financial challenges prevent necessary work from moving forward, creating longer-term and more complicated issues for the future. We need to work to avoid this situation to protect the corporation long-term. A well-maintained building is essential, as it will help maintain real estate values, improve resident safety & comfort, and run more efficiently, potentially reducing future costs.

Because there are limited financial options, the key is understanding how the potential solutions are applied differently throughout the lifecycle of a building. Here are some examples to consider.

Consumer Price Inflation

New builds have a unique inflationary challenge in the current market. First-year budgets are typically prepared years before registration and include some inflationary adjustment year-over-year. In recent years, inflation has been much higher than could have reasonably been predicted. Although the Declarant is responsible for the first-year deficit that might result, new condominiums may have to increase their operating budgets even more significantly than current inflation.

Older condominiums struggle with inflation differently. Their equipment may not be running as efficiently, meaning that spiking utility costs can drastically impact the budget. There may be long-term staff retention costs because salaries must adjust to the current market. Contract renewals may see more significant increases than what has been expected historically.

Despite the underlying issue, the right solution to address inflationary pressures on operating costs is to increase condo fees while also seeking to address long-term cost-saving opportunities that do not compromise service quality.

Understanding the major contributing factors to the budget overall (by expense category) and which individual expenses drive the increases is essential. This will help focus on which cost-saving opportunities are meaningful and assist with developing clear owner communication about current and future plans.

Construction Deficiencies, Warranty & Litigation

New builds have protection through the performance audit and TARION warranty process. Older condominiums may also experience issues with original construction deficiencies that are outside of warranty periods or relate to recent major capital repair projects. New and old alike could experience upfront costs to address the underlying issue before the corporation can hold responsible parties accountable.

To best consider what options exist, the first step is to get realistic about the work required, the timeline for project completion, the length of any legal or warranty process that could result in financial recovery, and whether the corporation has any room within the existing budget or financial position to minimize the impact. One additional point of consideration is what occurs if cost recovery is achieved. There is no option for a corporation to return any condo fees already collected to the owners.

It would be best if you relied on your experts to communicate with each other throughout this process so that the moving pieces can align and develop the best strategy. Fee increases, special assessments, and loans (or a combination of the three) can be tailored to fit unique circumstances.

Construction Price Inflation & Reserve Fund Planning

Construction price inflation has been unbelievable from 2020 to 2023, but inflation related explicitly to major construction projects has greatly surpassed the consumer price index for many years.

Older condominiums face these pressures to execute major repairs today as they go through their building renewal cycle. Projects are far more expensive than could have been anticipated through previous savings plans. There are considerable shortfalls in today's projects, plus adjustments to future costs in their overall reserve fund plan.

New builds face these pressures to set their future repair plans up for success. First, they need to adjust a first-year contribution based on a percentage of their operating budget (which history tells us is never enough) when they receive the first-year RFS. Then they continue to feel the pressure year over year when updates are done to the study revealing the most expensive projects – often occurring in years 30 to 45, which fall just outside of the first few reserve fund study updates. New condominiums will feel this pinch for 9+ years!

Older condominiums have three options – special assessment, loan, or project deferral. Each scenario has pros and cons, which may include increased condo fees. Consider the actual cost of each scenario, the impact on condo fees, and the community's ability to absorb high unexpected costs.

Deferral often is not the best solution, but considering it as an option helps to guide the decisions better. It may not even be an option if you have a failed building component with an urgent repair need. Even if it is possible to defer, there are always costs to consider, such as future inflation, maintenance, and running inefficient building components.

New builds only have the option to increase condo fees. A best practice is to try and address the future shortfall as early as possible. Most reserve fund planners will be able to provide the board with tables showing 45-60 years of expenses so that the building renewal cycle can be captured in the first reserve fund study. The earlier you bring the funding level to the correct place, the more stable the condo fees will be in the future.

What About New(ish) or Conversions?

New(ish) condos or conversions have the added challenge of combining some or all of these issues simultaneously. Getting the right advice early on or as soon as you realize a concern is even more critical in these cases.

Throughout the planning process, we should always ask ourselves how best to communicate with the owners. These conversations are not always easy, but being well-prepared for the discussions goes a long way. Even if the condominium is early in planning, owners must be advised of what is known and the estimated financial impacts. Consulting with the owners early on ensures that the final plan adopted by the corporation includes any specific feedback for community members. ■

Lyndsey McNally, OLCM, LCCI, has worked with condominium corporations in the Greater Toronto Area and across Canada since 2002 in various roles, including administration, physical building management, financial management, organizational management, and policy oversight. At CWB Maxium Financial, Lyndsey develops and implements customized financing solutions for condominium corporations. Lyndsey was elected to the Board of Directors of the Canadian Condominium Institute in 2018 and is currently President of the Toronto & Area Chapter and Director-at-Large for the National Executive Board.
cwbmaxium.com