How Does Your Property Compare? A Compilation and Cross Sectional Analysis of Over 100 Depreciation Reports

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Depreciation Reports provide pertinent technical and financial information to assist property owners with long term fiscal management of their properties. One of the main reasons for their recent legislation was to urge owners, after having received their Depreciation Report, to save more money for needed maintenance and eventual asset renewals. However, this sense of urgency is lost if the end users don’t have a baseline to compare their reports, understand the industry norms or recognize that they are financially weaker than a similar property. Different reserve planning firms with diverse reporting techniques, financial tools and educational backgrounds also exacerbate the situation.

The purpose of our research is to assist all parties in the Depreciation Report industry in analyzing and comparing reports. Our results provide references or baselines (applicable to most Depreciation Report styles or formats) so that all relevant parties (lenders, property managers, owners) can compare their Depreciation Report and gauge the condition of their CRF finances.

Based on over 100 Depreciation reports, we have analyzed targeted financial outputs and correlated them to relevant property parameters such as type, age, population density and size of the property.

Results of Analysis

With Respect to Special Levies (SLs):

- Cumulative costs of special levies per unit per year provide an all inclusive and normalized method of ranking or evaluating properties’ CRF finances.
- High-rises tend to have the lowest frequency and cumulative costs of special levies.
- Approximately 10 years old is the threshold age after which the frequency and cumulative costs of special levies tend to increase dramatically.
- Population density is inversely proportional to the frequency and cumulative costs of special levies.
- Generally, the larger the property, the less special levies, but this correlation is not strong.

With respect to Contingency Reserve Fund contributions:

- Annual CRF contributions range from 7% to 17% of their respective operating budgets.
- ARFA values (fully funded contribution amounts) are proportional to property type and population but not age.
- Coupling the current CRF contribution to ARFA as a ratio or percentage is a reasonable approach in determining if CRF contributions are sufficient. The higher this percentage, the better.
- Based on this metric, high-rises, buildings between 21 and 30 years old and highly populated properties score the highest percentage.

With respect to the building envelope:

- This represents the largest category of renewal costs.
- These costs are prevalent in townhouses, buildings 21 to 30 years old and properties with 76 to 100 units.
- Future work includes an industry consensus on a ranking/evaluation system, quantifying other effects such as geography, use of property, type of housing or reserve planning firm and strengthening these established conclusions and correlations with more data.