

Condo Smarts

Headline: Contingency Reserve Funds

Topic: Reserve Plans

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Dear Condo Smarts: My boyfriend and I have been looking around for an older affordable condo that will be our first purchase. We've had several potential units and properties inspected and have reviewed the minutes of meetings and reports on several buildings. Everyone we talk to says these are great buildings and a good time to buy, but one issue we don't understand is how much money is supposed to be in the contingency reserve fund for a building. One strata had 0\$ in their reserve and rationalized it because they were happier with special levies, and another building had almost \$2 million in their reserve as they were planning for future repairs. So what's the right amount? Is there a minimum amount required by law? Catherine Li, North Vancouver

Dear Catherine: There is no minimum that has to be maintained in the Contingency Reserve Account. There is a basic formula that requires a strata to contribute 10% of their annual operating account to the reserves if the reserves are less than 25% of the operating budget. For example if the operating budget is \$100,000, and the reserves are less than \$25,000, a strata would be required to commit \$10,000 for the next year to the reserve fund. Ten percent is an unreliable amount as it is based on

common operating expenses not the actual costs a strata will be facing for future costly items such as roofing, repiping, windows, balcony and deck repairs, elevators, and special features like lakes, ponds and pools. A strata corporation that has a well funded reserve account is in a much better position to ensure repairs and maintenance are done before they become a costly disaster. It is much easier to approve spending \$250,000 from your reserves for a new roof than it is to pass a 3/4 vote to impose a levy of \$10,000 per unit for the same repair. As a buyer you should look at both the operating account, reserve account and the maintenance and operations program the strata has in place. Don't forget, when you buy into a strata, you also buy a share of all the liabilities, risks and deferred maintenance of the past owners. An older building can be a great purchase if the property is well maintained, there is sufficient money in the operating budget to hire contractors and service personnel and there is enough money in the reserves to face the future major costs over the coming years. It is a myth that low strata fees are a great deal. Low strata fees usually mean the owners are not maintaining their property. Ask for a copy of the strata operations and renewals plan. If one doesn't exist you might want to question that building.

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