

## Condo Smarts

Headline: Investor and Rental Pools

Topic: Buying

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**Dear Condo Smarts:** Our family purchased 5 townhomes in a resort complex in Parksville in 2002. At the time the promoter indicated our annual returns would be 8-10% of the value of our property. Obviously times have changed and the value has skyrocketed but the returns have either stayed at a flat line or dropped with the reduced number of overnight bookings. We've decided to sell 3 of our units and contacted the strata corporation to provide us with bylaws, financial records, and copies of the rental pool agreement. Somehow we were given the documents for other units with financial reports showing that the other units were receiving far greater return on their investments. The president, vice president, and treasurer of the council were part of this group and have received 5 times the financial returns that we ever saw. We're unfamiliar with BC Strata laws but can directors administer the rental pool for their interests without reporting it to the owners of the strata? We now have a lawyer involved but the business of the strata is intimately woven into the rental pool and it's going to take years to sort out the mess. Please let other investors know about the problems. What's our next step? The Cavendish Family, Washington State.

**Dear Cavendish Family:** You are taking the exact correct action. Have the program audited, your contract reviewed, and seek to recover your losses. A rental pool, in definition, generally implies that all of the expenses are applied to all of the revenues of every unit in the pool. Then the funds are distributed to the rental pool investors based on the rental pool agreements that are usually set by the size and number of bedrooms of

a unit. I must caution investors province-wide though. I have seen many rental pool agreements where the only revenue you receive is based on the frequency your unit is rented. They are called rental pools in name only, but they do not function as a rental pool and you risk putting your property into an investment group with no returns. In several resort locations owners have found they are required to pay for additional operating costs because there was insufficient rental income to cover the expenses. The other side of the rental pool is the management or operations agreement. While you may be in a pool that has a 50-70% occupancy rate, the management and booking commission rates may be so high and uncontrollable, you see little or no return. Don't forget to review the table of costs and disbursements. What kind of bills could you be potentially facing? The contract expenses may include almost anything. Booking fees, advertising and marketing, management, accounting, security, maintenance and operations in addition to strata fees, insurance, computer upgrades and entertainment can all be added to the costs. Before you enter into a rental pool, or buy a rental pool property talk to your lawyer and review the contract closely. The financial reports shown to potential buyers are best case scenario and may not reflect the contract. The details of the agreement are where you will earn or lose your money. Strata business and rental business should be entirely accounted for separately, unless it is the strata that owns and operates the rental pool business. Even under those circumstances the strata business and the rental pool business need to be accounted for separately.

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