

Condo Smarts

Headline: What is the cost of an Exemption from Depreciation Reports?

Topic: Depreciation Reports

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Dear Condo Smarts: Our strata owners are at odds with what to do about a depreciation report. Most council members are recommending we include this in the budget, but an owner has gone around with a petition demanding we put a resolution on the agenda to exempt our strata corporation. We are an older 37 unit townhouse complex in Burnaby, and have always paid very low strata fees. Owners are now afraid that we are going to be forced into much higher strata fees so the pressure is on to exempt our strata from the report. Is there any sense of how an exemption may impact our strata? We have few arguments for our owners, except, it simply is the right thing to plan for the future.

J. Dodds

Dear J: It is important to understand the deadlines that are set in the legislation. Strata corporations of 5 units or more must have their first depreciation report done within 2 years of coming into effect of the legislation, which was December 13, 2011. That means you either have to obtain your depreciation report or have passed a three quarters vote for an exemption by December 13, 2013. If you do exempt, you will be required to pass a three quarters vote annually.

Strata fees are only impacted as a result of your depreciation report, if the strata corporation, as part of their voting on the annual budget, agree my majority vote to increase your contributions to your contingency reserve fund. The reality for aging strata corporations is that they will end up paying the amounts, whether they plan for it or not, but if you don't do a depreciation report, how can you effectively plan for the future? There is significant control and savings in planning for your building components as they need major maintenance and renewals. J's strata corporation is town houses, and each unit has its own hot water tanks. In the past 10 years, they have had 4 insurance claims as a result of aging failed tanks. In addition to the emergency repairs and personal losses, all the owners ended up paying higher rates for insurance and future insurance deductibles. One of the greatest benefits of depreciation reports is the effective planning to renew building components before they fail. The strata is in control of when the

work is done, who does the work, retains the power to negotiate, and avoids the over costs of emergencies. The other purpose of depreciation reports is disclosure. If you are an owner, buyer, mortgage provider or insurer, or an insurance provider, the document becomes a valuable asset in determining future risk. Even if a strata did not increase their fees, by having the depreciation report, owners at least have an insight to future costs for personal financial planning, buyers feel more secure in their purchase knowing when future major costs and special levies arise, and the banks and insurers have more confidence in the investment. It has only been 3 months since the implementation of the regulations, and 20 days since the Form B changed. Already, buyers and their agents are already asking if reports are available. Ultimately it is the decision of the strata to exempt, but the consequences may be a limitation on buyers, the costs of reactive repairs and an impact on property values. Weigh the risks before you decide.

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