Condominium Home Owners' Association
Serving BC's Strata Property Owners since 1976
Bulletin: 300-500

Condo Smarts
Headline: What does risk tolerance mean?
Topic: Depreciation Reports
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Dear Condo Smarts: Our 112 unit apartment has received our depreciation report and we are very pleased with information and the result. We requested that the report include a summary annual maintenance schedule as well as the 30 year report for all the common property renewal items. The maintenance plan has already encouraged us to review how our annual budget is structured and to add those items into the annual budget that need routine inspection and maintenance. Even though the changes seem significant, between our budget amendments and increase in contributions to our reserve fund, we can meet all of the expectations for our future needs if we increase our monthly strata fees by 13.5% at the end of this year. Our owners voiced their support at last week's information meeting, and we would encourage every strata corporation to seriously consider the positive impact of the reports. There are two terms in the report that we could not explain and did not fully understand in their context. We understand the basic term "risk tolerance" but were confused when the report indicated that estimates were based on "run to failure" life cycle based on our risk tolerance. We have 2 professionals on our strata council and even they could not agree on the implications. *GW Morrow, Burnaby*

Dear GW: The terms "risk tolerance" and "run to failure" are connected terms generally found in depreciation reports and maintenance manuals. Risk tolerance generally applies to you the consumers and what your willingness is to accept the risk of when, and how an identified component will fail. For example, a roofing system may have a 25 year life span. The strata current age is 8 years, implying that there may be 17 years remaining in the performance life of the roof. The life cycle (the 25 years) is based on estimates that consider the age, current condition, installation and the materials. There could also be other factors such as environmental conditions that could extend or limit the life of the roof. When you consider the risk tolerance of your strata community you are essentially make a decision about when it's time to replace the roof. Do we plan for it at 25 years regardless of condition, or do we wait until there are obvious indicators that the roof has finally come to the end of its life, "run to failure" when the leaks start, or do you decide somewhere in between? Some building components will not result in an emergency repair or possible secondary damage when they fail, so the strata may wait until they literally stop working. A cosmetic pump in a fountain is an example.

What the strata corporation seriously needs to consider is how they will plan for and retain control over their major construction projects to avoid damages, disruptions and emergencies, that impact use and value of property, safety, and costs. This is your "risk tolerance". Consider the major components in your building. In the event they fail, what are your options? Good examples are roofing systems, elevators, hot water boilers and heating systems, sump pumps, balcony membranes, exterior doors, windows and cladding, gutter cleaning and repairs, drainage, and water delivery lines. No one wants to spend the money until they have to, but if you wait until the damages occur or you need the component replaced today, you may spend 25 to 40% more than you should have. Between an annual maintenance program, routine inspections, and renewed depreciation reports every three years, you will at least have some of the necessary tools to make the right decisions.
