

**Condo Smarts**

Headline: Depreciation Report Updates

Topic: Depreciation Reports

Publication date: Nov 6, 2014

Publication: The Province

Written by: Tony Gioventu

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**Dear Tony:** Our strata corporation did its first depreciation report in 2011. The result has been a significant change in how our strata is looking towards the future of maintenance, replacement of building materials and how we are saving funds. Our strata has increased our fees by 15% over the past three years to clear our underfunding status, all of which has gone to our contingency fund. Now we are due to update our report and the owners are questioning why we have to do the update when the information is still current? If the strata corporation chooses to not renew the report can we pass a three quarters vote to exempt our strata from the requirements? If we did, how would this impact our strata?

*Doug R. Surrey*

**Dear Doug:** At this time, strata corporations are still permitted to exempt themselves from the requirement of a depreciation report, and logically that would apply to a subsequent update of a report, but that does not exempt the strata corporation from disclosing the report to any owner or their agent. If your strata did defer or delay the update, you would still be required, on the request of a Form B Information Certificate to provide the most recent depreciation report if any, regardless of whether it was updated or not. The three year renewal cycle is part of the legislation and a reasonable time period for strata corporations to re-assess their building asset conditions, their financial status and progress, upgrades or changes that may have affected the report, changes in building codes, legislation or technologies that may impact the report information, projected values of replacement costs, and changes in market conditions that may affect cost projections of future renewals. Look at this from the perspective of a buyer. If you were interested in purchasing a unit in your building, would you not be looking for a recent, updated copy of a report that accurately estimates the current building conditions, financial status of the building and any recent upgrades, all of which are a significant value to the buyer? This is a risk that the strata corporation will have to assess before they consider not updating or renewing the report. There has been significant debate over the right

time period for renewals, but in jurisdictions where the time periods are longer, such as 5 years, the reliability of the report is difficult to determine, and the costs of the renewals are significantly higher, resulting in little savings if any for the strata. We are essentially still in the early days of depreciation reports, which technically only came into effect as of December 13, 2013, but their long term impact on property management and valuation is already being felt across the province. There are a few terms and conditions we are seeing in depreciation reports that are not consistent with BC Legislation that specifically relate to funding models. Strata corporations do not have to pick one of the funding models. The models are simply examples of the different levels of funding and how they impact the future funding needs of the strata owners. The funding is approved each year as part of the annual budget by majority vote of the owners. The term, "underfunded" is not a legislative requirement and does not apply to strata corporations in BC. There is no minimum funding requirement and strata corporations may choose to either contribute to the contingency for future expenses, approve special levies or some model that includes both options. This does not imply that a strata corporation is appropriately funded in any capacity. That decision is left to each strata corporation to consider as part of their annual planning.

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