Stratas ignore depreciation reports at their peril

STRATA INVESTING

By JEREMY BRAMWELL

As of December 13, 2013, British Columbia's approximately 30,000 strata corporations were supposed to have contacted qualified providers to acquire depreciation reports as mandated by the Strata Property Act, Regulations and Amendments requirement, or voted by 75 per cent to exempt themselves.

Anecdotal evidence suggests 50 per cent did nothing, by way of not voting, 15 per cent to 20 per cent ordered the report, and the balance voted to exempt themselves.

There are some valid reasons to defer the depreciation report. Bare-land strata corporations that are designed so that there is no common space, that is they have no park space or road, and the services are directly plugged into the municipal services, have no real need to get a depreciation report as there is no common property. However, this is a small portion of the stratas in B.C.

Another reason is that the strata corporation is new, with a warrantee in place. The legislation states the strata corporation does not have to vote until its second annual general meeting.

The final reason is that the strata corporation is terminating. No reason to get a report if the strata is winding down or at the end of its physical and economic life.

These are valid reasons to defer the depreciation report, but some of the logic that strata corporations are basing their decisions on is flawed. Strata corporations that have even a a small amount of common property in the form of shared streets and underground services should have a depreciation report.

Why it is needed

- Purchasers are looking for depreciation reports to get an understanding of their long-term obligations. They are offering less money to those sellers who do not have reports.
- Lenders are looking at them to understand their risk, as well as the risk to the borrower. If there is no depreciation report, lenders may raise the mortgage interest rates to offset the increased risk. In older buildings, they may decline the loan.
- Insurers are looking at them to understand their risk.
- Owners are looking at the reports to save and get ready for special assessments.
- Insurers will increase premiums to offset their increased risk.
- Strata councils will have more management problems as they have to achieve 75 per cent of votes to use money in the contingency reserve funds, increasing the amount of deferred maintenance in a project.
- There is increased potential of foreclosures and costly legal action if owners cannot meet special levies.
- Recent changes in the Strata Property Act mean strata councils can get work done using the funds for work indicated in a depreciation report with a simple majority, as opposed to 75 per cent if there is no depreciation report. This is a significant change to make it easier to manage a property once a proper planning tool is completed.

Excuses

We have heard from many strata councils why they are deferring the depreciation report.

- Some strata councils resent this interference. However, strata corporations are fundamentally non-profit organizations, with strict requirements that are mandated by the Strata Property Act and Regulations. Getting a depreciation report is one of these requirements.
- Some strata corporations want to wait and see if the requirement goes away. British Columbia is the seventh province to institute depreciation report provisions its Strata Property Act. The current government has indicated a resolve to make homeowners more aware of the long-term financial requirements of the strata development they live in. This requirement will not be rescinded.
- Others say that as there is no strata police, nothing will make them get a report. But a Civil Resolution Tribunal (CRT) will soon allow strata lot owners to bring forward a case for a few hundred dollars to be resolved in a couple of months. Many of the first cases that the CRT is expecting to receive relate to strata corporations that have failed to vote or are waiving the requirement to get a depreciation report.
- Many believe they are too expensive. Cost is relative to the scope of work that the depreciation report writer undertakes. An engineered depreciation report is based on an invasive inspection of the property. This means that they take off the siding to look underneath, look under the roof, etc. This report can cost two to three times the cost of a functional depreciation report.
- Some are not getting depreciation reports due to lack of guidance on format or qualification of the depreciation report writer. The government does not legislate the form of depreciation reports or the list of who is qualified. We suggest that strata corporations focus on hiring somebody who will be deemed credible by buyers, lenders, mortgage companies and insurance companies. The **Condominium Homeowners Association** (CHOA) and other similar organizations recommend engineers, architects, AACIs (the senior designation of the **Appraisal Institute of Canada**) or certified reserve planners (the only nationally recognized designations for depreciation reports by the **Real Estate Institute of Canada**) and quantity surveyors. These professionals must conform to the standards within their organizations.

In summary, there are many reasons for owners to exempt themselves. But it will become more economically problematic as non-compliance costs increase and buyers become more aware. Depreciation report writers commonly bring a plan that surprises the strata corporation owners, but is highly useful to owners, buyers, lenders, insurers and property managers. ■

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Failure to have a depreciation report can threaten financing, insurance and the sale price of individual condominiums