

TALES FROM THE TRENCHES

BY BARRY C. MCGUIRE

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Barry McGuire's Focus Series

CONDO RESERVE FUND STUDIES

Our member was doing well - a professional in Fort McMurray, rising up the corporate ladder and there for the long haul. With his busy job he thought that condominiums would be the way to go, way less management time for him and easy to rent in Fort Murray.

Before purchasing any condo units, he got his checklists in order. Down the checklist he went - tick, tick, making sure all items were obtained including reserve fund studies. Soon, he owned condo units in a number of different condominium projects.

To further protect his investment, he got himself appointed to various condo boards. It wasn't long before he was dismayed to hear the professional property manager at each condominium complex report to the Board that various deferred maintenance items could no longer be deferred. Examples were windows, shingles and siding.

At first, our member wasn't worried. He knew that reserve funds are established and required to ensure that when a building component needs replacing, there are adequate funds available to do the job. In one condo complex, the property manager said it was time to replace shingles, fences, siding, doors and windows. The next thing he said was that their fund did not have enough money and he was suggesting a special assessment of approximately \$36,000 per unit. Our member owns two units. You do the math. How could this be?

QUICK REVIEW. Condominiums are required to produce a Reserve Fund Study (RFS) prepared by a qualified person, and update or redo that study every five years. The RFS is supposed to look at all aspects of the common property, determine their remaining useful life and predict how much it will cost to replace each component. The study then concludes with an overall financial analysis that discusses how much money is currently in the reserve fund and what the monthly fees and or special assessments should be in order to ensure the study can be implemented. In other words, how much money are we going to need to keep this building in good shape?

Once the qualified person produces the RFS, the condominium through their Board of Directors is supposed to prepare a reserve fund plan. The plan is how the condominium implements the analysis contained in the study. The Board is not obligated to slavishly implement the plan. Our member went back to the RFS that he got (but didn't read!) when he bought the property. He found minutes of a board meeting that said, "We vote to adopt the RFS as our reserve fund plan". So, the study and the plan are the same document. Note, in many cases the plan does not follow the study if the Board thinks the study is too conservative. Better late than never to dig into the details and find out.

Here's what our member found when he dug into the RFS, did some of his own research and read the board minutes.

1. The current cost of windows was twice the cost in the RFS. Other common property components were similarly underestimated;
2. Labour to install was 50% more and hard-to-find (the Fort McMurray premium);
3. The remaining useful life of most common property was underestimated, meaning earlier replacement was required;

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4. The engineering firm that did the RFS had no experience in Fort McMurray and were doing their first RFS;
5. The disclaimer at the end of the RFS appeared to absolve the engineering firm from any liability for any mistakes;
6. The Board either ignored, postponed or didn't believe their property managers advice about an inadequate reserve fund and looming special assessments.

LESSONS LEARNED:

- Reserve fund studies are complex documents that must be prepared by a “qualified person” according to the Condominium Act Regulations. Qualifications are not set out in the Regulations. (I think “qualified” should be an experienced, competent professional usually an engineer or other qualified technical consultant)
- Reserve fund plans prepared by the Condo Board or property manager must be realistic and up-to-date
- To properly analyze your condo purchase, get help from a company that specializes in condominium analysis.

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