

TALES FROM THE TRENCHES™

BY BARRY C. MCGUIRE

September, 2014

UPDATE ON THE DISASTER AT PENHORWOOD

In a previous Tale, [we reviewed the calamitous and stomach turning events at the Penhorwood Condominium complex in Fort McMurray, Alberta](#). Our review looked at events occurring in 2011, but in 2014 things really came to a head. I thought this was serious enough to reprint some of our previous Tale, and then follow-up with a discussion of how the circumstances evolved. Read on and be very aware that some condominiums have ultra-serious issues.

2011 Summary:

The disaster at the Penhorwood Condominium Complex in Fort McMurray is another graphic illustration of huge potential problems in a condominium purchase. In March of 2011, on a cold winter evening just before midnight, all residents were ordered to evacuate on 30 minutes notice. The Condominium Board had requested the evacuation order after receiving an engineer's report fearful of a disastrous foundation collapse.

Fingers were being pointed everywhere. The Condominium Corporation blamed the builders and the developers, the Regional Municipality of Wood Buffalo, project engineers, safety codes officers, and the architect. There had already been a lawsuit in 2007 that the Condo Corp had launched against the developer, which was based on a previous engineer's report noting numerous deficiencies. There had also been a \$25,000 per unit special assessment related to earlier problems. Statements of Defense denied all allegations and nothing had been proved in court.

2014 Update:

The *Edmonton Journal* published an [article describing how the Penhorwood owners had been ordered by the regional municipality of Wood Buffalo to demolish all the condominium units](#). Those 300 residents evacuated in the middle of the night in 2011 had not been allowed back into the condominium complex. There had been talk of repairing the damaged units, but nothing came of it. The *Edmonton Journal* article says that the regional municipality threatened fines of up to \$100,000 and a further \$1000 per day and/or imprisonment not exceeding six months. In follow-up articles, [the regional municipality has said that they never meant to threaten residents and would never impose those fines or try to put anyone in jail](#).

However, since the condominium owners have been fighting the demolition order for a couple of years and have said they cannot afford the costs of demolishing, the regional municipality says they will now do it. Christine Burton is president of the [Penhorwood Condo Association](#) and she says that the regional municipality will file a caveat against each unit title. They intend to recoup the cost of demolition when the land is sold. Demolition cost is approximately \$100,000 per unit.

Remember that every owner will now lose all the cash that they put into each unit purchase, be responsible for their mortgage, and owe a further \$100,000 demolition cost for each unit they

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own. I don't know the original purchase price of all the units, but I expect minimum losses for each unit owner will be in the \$250,000 range.

On their part, condominium owners continue with their \$60 million lawsuit launched against 28 defendants including the municipality, developers, and construction companies. This is the worst condominium disaster I have ever come across!!!

Where does this leave you as an investor looking to buy a condominium unit?

Due diligence, due diligence, and more due diligence! I made many suggestions in the first [Tale about Penhorwood](#), there is also my Tale "[Condo Reserve Fund Studies](#)," and you can take a look at the [CMHC's Condominium Buyer's Guide](#).

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EMAIL B.MCGUIRE@RMLO.COM

[RMLO Law LLP](#)
MacCosham Building
Suite 101, 10301-109 ST Edmonton, AB T5J 1N4
Phone: [780.431.1444](tel:780.431.1444) Fax: [780.431.1499](tel:780.431.1499)