

Danger of just saying no to depreciation reports



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Condo Smarts

Dear Condo Smarts: Our strata consists of 18 bare-land units in a retirement community located in Oliver.

We have been reviewing the depreciation legislation and just don't see the point for small strata corporations. Owners are responsible for each of their units, and other than snow removal and insurance, we have very few common expenses.

We have decided to take advantage of the exemptions in the regulations, but

don't understand the procedure.

Mrs. K.R. McMillan.

Dear Mrs. McMillan: One of the most valuable benefits of the depreciation reports is going to be the inventory of common property, common assets and portions of limited common property and strata lots that the strata corporation is going to have to repair, maintain and replace.

There are many strata corporations that have operated with limited function under the Strata Property Act, and the new regulations will certainly require that strata corporations recognize their obligations.

Strata corporations of five or more units are required to provide a depreciation report by Dec. 13, 2013. A strata corporation of five or more units may be exempted, if the strata corporation annually passes a three-quarters vote at a

general meeting.

This will require the strata corporation to include the exact wording of a three-quarters vote resolution with the notice of the general meeting and on the agenda.

The minutes will then reflect the results of the three-quarters vote. Remember, a three-quarters vote is based on those who vote for or against the resolution at the time the resolution is passed, and who have not abstained.

For example, your strata is 18 units. Let's say, at the AGM, 14 owners register in person or by proxy. When the vote is called, nine vote yes, three vote no and two abstain. The result is based on three-quarters of the 12 who voted.

Before your strata corporation votes for an exemption, consider the implications of that decision.

Depreciation reports are going to be a widely used

tool to manage risk for buyers purchasing in strata corporations.

Potential buyers and their mortgage providers or mortgage insurers may have a keen interest in a depreciation report if your strata poses risks that indicate a high-ratio borrower may not be able to manage special levies or unknown future costs. The absence of a report will make it more difficult for a vendor to sell their unit in these circumstances.

Also, buyers will use depreciation reports to determine if the asking price is reasonable. The absence of a depreciation report might impose restrictions on the property that limit the ability to sell.

Many retired owners tell me they are planning on their final farewell from the condo, so why should they bother paying for something they won't use?

Yet they have enjoyed

the use of the building components over the years.

Another point: You might hope you'll live in your condo until the day you die, but the reality is that most people require some sort of extended residential care at the end of their lives. This isn't cheap. Suddenly the ability to sell the home quickly and for a good price becomes important.

The value of property will be influenced by the condition of the property, the strata's financial position and the long-term planning for renewals.

These days, potential buyers are assessing their investments from all of these perspectives before they make an offer.

McMillan's strata has an even greater problem.

The requirement of depreciation reports has caused them to assess their strata, and even though they have been operating as such for 11 years, they are

not a bare-land strata as they believed, and the strata corporation is responsible for the building exteriors and all defined common property.

Even in a bare-land and townhouse community, there are still significant common costs in the future. For example, who is going to pay for the replacement of the common water and sewer lines when there is a failure? The strata corporation is, and this is a significant cost.

So don't be deceived into thinking your risks are small. Before you decide on an exemption, think about the implications and the future of all of those costs.

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