

CONDOMINIUM RESERVE FUND STUDIES – SHOULD THERE BE MORE?

SUMMARY

We assume your desire as a condominium (condo) owner and/or a condo board director is to have a well-maintained building, whose value appreciates over time, while minimizing the cost of ownership for both the condo corporation and the individual unit owner. But how do you go about achieving that?

Most condo owners and their boards now understand that the purpose of a reserve fund study (RFS) is to ensure there is an adequate pool of money to take care of repairing and replacing common building components over the entire life of the building. But how does the RFS minimize your costs and maximize your value? It doesn't really, but we think there is a better approach that identifies all of the costs over the entire building life. This approach is called the Total Cost of Building Ownership (TCBO) and it has the potential to minimize your ownership costs over the long term.

TODAY'S APPROACH TO RFS

"The intent of a reserve fund study is to look at the entire life span of condominium development and its components. Aside from the interior structure of the building, which will (should) last precisely as long as the life span of the building, every single other component or system will be replaced or repaired, at some point."¹ The important point here is that the entire life of the building should be considered. Does your RFS consider the entire building life?

Lets start by looking at some examples:

- Example #1: a townhouse condo community whose roof was installed with 20-year asphalt shingles and it is time to replace them. Using 20-year shingles this time means you do it again in 20 years. To save money now because the reserve fund is low, do you have 15 year shingles installed instead? Or should you consider a metal roof, which may last 40-70 years? The metal roof costs more but lasts 2-3 times as long, would that be your choice? What additional information do you need to make the decision?
- Example #2: a three-story apartment-style condo needs the wood siding painted and has some rotten boards that need to be replaced. As well, each unit has some older drafty windows. Is the draft due to the windows or how they were installed, or perhaps due to defects in the exterior walls? Would you consider removing the siding, adding some insulation and properly sealing the building, then put on new siding that will not require painting in the future? What are the current heating and air conditioning bills and how much could you potentially save over the next decade or two, taking into account the expected escalating Hydro rates and carbon tax increases?

The current RFS process looks at each building component independently, determines the remaining life of the component and how much it will cost to replace in the future. Condo Boards then determine the reserve fund contributions based on the RFS estimates and projections and the current reserve fund balance. Should the



RFS process instead consider the interactions of the various building components and take into account future energy cost increases? Does the Board have a responsibility to only the current owners and to minimize their costs? Or does the Board have a responsibility to all owners over the next 10, 20, 30 or 40 years? Can the RFS process take these aspects into account or does the Board need to do this on their own or is there another option?

When an RFS is prepared, typical life expectancy tables are used to create the replacement cycle for each building component. However, these life expectancy tables are just estimates and the actual replacement cycle for your building will be different due to the quality of the component used, the weather conditions prevalent in your area and how well the component was maintained. The Manitoba Condominium Act has a requirement to update the RFS every five years so that you can adjust the replacement life cycle of any building component that is showing more or less wear and tear than normal.

When the estimates are prepared for the replacement cost of each component, the estimate is usually for a "like for like" replacement. In relation to the examples presented above, this means you replace 20-year shingles with 20-year shingles and you just replace the rotten siding boards and repaint the building. This "like for like" replacement just ensures that your costs to own and operate your condo will continue to go up at least by the inflation rate and probably more because of escalating utility costs, and gives you no improvement. But is this what you really want?

THE TOTAL COST OF BUILDING OWNERSHIP

Is there a different approach that minimizes the cost of ownership for both the condo corporation and the individual unit owner?

Let's introduce the concept of the Total Cost of Building Ownership (TCBO). Imagine that you have a jar on the kitchen counter and every time you have a bill that is related to owning your condo, you put the bill in the jar. When you eventually sell and move out of the condo, you add up what you have spent. Most people would be astounded at what this cost would be. So what is in the jar of bills? The bills would include your condo fees, which cover your common expenses. As well, the bills also are from your individual cost of ownership, which includes mortgage interest, insurance, property taxes, potentially your own utility bills, plus the ongoing maintenance within your unit, along with replacement costs within your unit, such as for appliances, flooring, countertops, etc. Notice that the TCBO includes both the common element costs and your individual cost of ownership. Both of these are important since the owners provide 100% of the funds for the condo corporation.

The important idea in this discussion is to think long term, and to think about the Total Cost of Building Ownership for the individual owner and the condo corporation.

In our next article we will expand on the TCBO approach and how it can minimize the cost of ownership for both the condo corporation and the individual unit owner. 🌟

¹ Best Practices for Reserve Fund Studies, Marin Gerskup, OAA, MAIBC, MRAIC and Mitchell Gerskup, B. Eng, EIT, HBA.

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