

Depreciation Reports

March 2013

Disclaimer: the guides are periodically updated as noted on the front page.

The guides are provided for the reader's convenience; they are not a substitute for professional advice including legal advice. Please note: the Standard Bylaws can be amended.

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Depreciation Reports

New Requirements

On December 14, 2011, new requirements came into effect for Depreciation Reports.

Strata corporations need to obtain depreciation reports every three years unless they hold an annual $\frac{3}{4}$ vote to waive the requirement or have four, or fewer, strata lots.

If a strata corporation has already obtained a depreciation report, that meets the new requirements, it will have three years to obtain another report.

Please note, there are different timing requirements for obtaining the first depreciation report depending on when the strata corporation was formed.

- For strata corporations formed **on or before** December 14, 2011, a depreciation report is required by December 13, 2013.
- For strata corporations formed **after** December 14, 2011 a depreciation report is required within 6 months after their second AGM.

Overview

Depreciation reports helps strata corporations, including bare-land strata corporations, plan for the repair, maintenance and replacement of common property, limited common property and common assets over a 30 year period.

The report must contain:

- A physical inventory of the common property and assets.
- Anticipated maintenance, repair and replacement costs for common expenses projected over 30 years.
- A financial forecasting section with at least three cash flow funding models.

Depreciation reports provide useful information to strata lot owners, prospective purchasers, mortgage providers and insurance companies.

Depreciation reports are also known as reserve fund studies in other jurisdictions and have been a standard requirement in most Canadian provinces.

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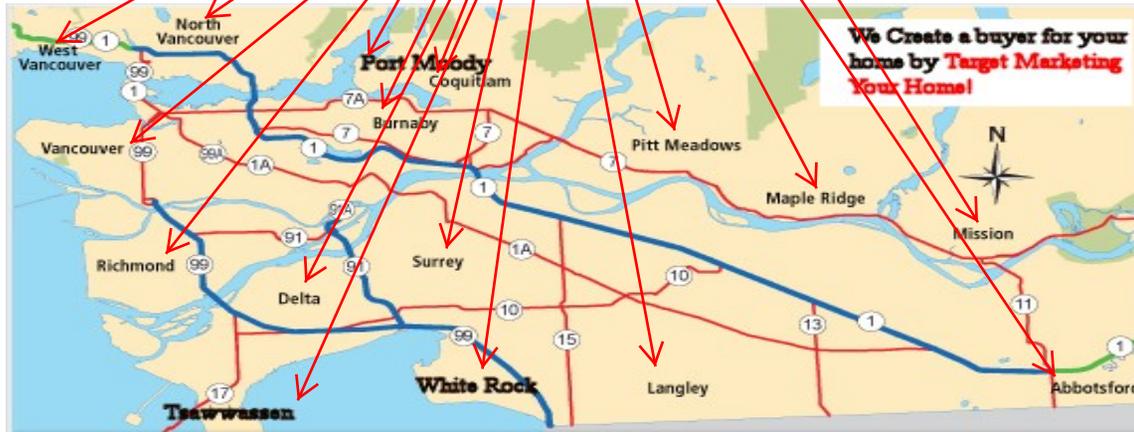


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What must be included in a depreciation report?

A depreciation report must contain the following information:

- A physical component inventory and evaluation of applicable components as outlined in the Strata Property Regulation 6.2. Examples of the components that are to be reviewed for the depreciation report are listed below. (Please note, this is not a complete list and not all strata corporations will have all the components listed):
 - the building structure;
 - the building exterior including roofs, decks, doors and windows;
 - building systems such as electrical, plumbing, heating, fire, protection and security;
 - common amenities and facilities. (For example, a pool, exercise room, guest house);
 - parking facilities and roadways;
 - utilities, including water and sewage;
 - landscaping, including paths, sidewalks, fencing and irrigation;
 - interior finishes including floor covering and furnishings;
 - green building components; and
 - balconies and patios.
- A financial forecasting section that includes:
 - a projection of the anticipated maintenance, repair and replacement costs for the next 30 years and the factors and assumptions used, including interest rates and inflation rates;
 - at least 3 cash-flow funding models over 30 years;
 - the current balance of the contingency reserve fund (CRF) and how it is funded.
- A summary of the repair and maintenance work to be done (other than on an annual basis) over the next 30 years;
- The date of the report, the qualifications of the author(s) of the report, their relationship, if any, to the strata corporation and information on any errors and omissions insurance.
- Any other appropriate information or analysis.
- The report must also identify those parts of the common property and limited common property, if any, that individual owners are responsible to repair and maintain.

Depreciation reports provide helpful information to strata owners and prospective purchasers. They are a standard requirement in other jurisdictions and Canadian provinces where they are known as “reserve fund studies”.

How much do depreciation reports cost to prepare?

The cost would vary depending on the size of the strata corporation, the complexity of the development and who is hired to do the report – there are too many variables to estimate the costs with any certainty. The initial depreciation report usually costs more than subsequent updates. The cost, relative to the assets, is low and provides real value for owners and purchasers.

Preparing for a depreciation report

Strata corporations may want to consider the following steps in preparing for a depreciation report :

Prepare Basic Information: Initially you will need to provide information on total units, year built, floors, and general building and assets information – such as elevators, etc.

Do some research: Talk to other strata corporations similar to yours, review best practices and materials from strata owner associations and websites. (*See Resources Section at the end of this guide*). Write down all the questions you want to ask prospective firms or individuals. You can also check if the depreciation report will be available electronically and thus easier to update.

Gather relevant documents: You will need to provide documents that include those related to repair, maintenance, inspection, agreements with owners about repairs to strata lots, common property or limited common property, as well as financial records and the strata's bylaws.

Who is qualified to prepare the depreciation report?

The Strata Property Regulation does not specify who must prepare a depreciation report. The knowledge and expertise required to prepare a depreciation report for a six-plex may be considerably different than the qualifications and expertise required to prepare a depreciation report for a highrise residential tower with its own power generating plant, airspace parcel and underground parkade.

The person (or team) preparing the depreciation report must have the expertise to:

- understand the scope and complexity of the common property, limited common property, and common assets including individual components and their condition and life expectancy;
- provide the financial forecasting required; and
- understand the strata corporation's bylaws and any agreements entered into with owners respecting common property and strata lots.

It is possible that for some strata corporations, the expertise and knowledge may exist among the strata lot owners to prepare the depreciation report or assist the qualified person or team in preparing the report. The strata lot owners and strata council should carefully consider the responsibilities and risks involved in having a strata lot owner(s) prepare a depreciation report.

To find the right person or team to prepare your report, ask for recommendations from other Strata Corporations similar to yours, check with your strata property manager, and look online at best practice guides offered by strata organizations. Make a list of qualified individuals and firms and invite bids or proposals. Don't forget to check for references and sample reports.

The person, or team, preparing the depreciation report must conduct an on-site visual inspection of the strata corporation's building(s) and components; review both the common and limited common property; as well as any part of the strata lots that the strata corporation, by bylaw, is responsible to repair and maintain.

Recordkeeping

Depreciation Reports and the Form B (the Information Certificate):

The most recent depreciation report, if any, must be attached to the Form B (the Information Certificate).

Retaining Depreciation Reports and other related materials:

The strata corporation must:

- permanently retain any depreciation reports obtained by the strata corporation;
- retain until the disposal or replacement of those items, any reports obtained by the strata corporation respecting repair or maintenance of major items in the strata corporation, including, without limitation, engineers' reports, risk management reports, sanitation reports and reports respecting any items for which information is, under section 94, required to be contained in a depreciation report;

Additional Resources

Links to additional resources on Preparing Depreciation Reports

- www.housing.gov.bc.ca/strata/regs

Other Strata Property Act Resources

- Guides: www.housing.gov.bc.ca/strata/guides.htm
- Strata Property Act: www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/98043_00
- Strata Property Regulation:
www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/12_43_2000

Strata Organizations in British Columbia

- Condominium Home Owners' Association (CHOA): www.choa.bc.ca
- Vancouver Island Strata Owners Association: visoa.bc.ca

Additional References:

Sections of the Act referenced in this Guide: 1, 35, 59, 91-96, 98-101, 103, 105, 108, 109, 111, 158, 194, 195

Sections of the Regulations referenced in this Guide: 4.1, 6.2

Other Relevant Strata Property Guides:

- Guide 10: Strata Corporation Finances and Budgeting (updated March 2013)
- Guide 20: Who is Responsible for Repairs, for more information about who is responsible to maintain and repair various parts of the strata development.
- Guide 23: the Information Certificate (Form B)