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The Last Word

Short Term Pain for Long-Term Gain

Like most things in life, creating financial success in condominiums requires some short-term pain to create long-term gain. As most Condovoice readers know, the Condominium Act in Ontario currently starts every condominium in the province with a reserve fund contribution that is far too low. The minimum 30-year timeframe of a study also seriously understates required contributions in early years because the 30-year period includes twenty years of very light spending (the first twenty, when everything is new), and only ten years of heavy spending. The biggest tickets items lie in the 30- to 50-year range and are often not captured or funded in the initial studies if they study follows the Act's minimum requirements.

In a perfect world, each condominium would do their first-year reserve fund study, looking forward 45 or 60 years, recognize the initial underfunding, correct their contributions and set down a path to a financially successful future. But let's face it, we live in the real world, where people will do almost anything to avoid the resultant 30% or 50% increase in their maintenance fees. Early boards embark on long "phase-in" periods and other strategies to avoid getting the fees to the appropriate levels. This feels like success in the short-term but means that future owners are going to have to contribute much more than their fair share to the fund. If that 40% increase in fees feels untenable to current owners, imagine how challenging it is going to be for future owners to pay double or triple their fair share. But that's what many Notices of Future Funding show!

The impact of the understated first-year reserve contribution unfortunately has ongoing repercussions on condominiums even when they are 25 years old or older, because very few have managed to get their fees to a level that allows future contributions to increase by only inflation each year. They are still phasing-in, delaying and deferring, which allows the buildings to degrade and the backlog of required repairs and replacements to pile up to unmanageable levels.

The good news is that the Ministry has reopened consultations on the reserve fund portions of the legislation and regulations. Hopefully we can get some of these issues sorted out so that future condominiums don't face the financial challenges that the current buildings have. The amendments should also put more pressure on existing condominiums to get funding to appropriate levels rather than relying on future owners to magically be happy to pay exorbitant fees (that were, at the end of the day entirely preventable).

But why wait? Every condominium board in the province can "right the ship" starting with their next reserve fund study update. If you are in a building less than 20 years old, make sure your study is looking forward more than 30 years (a good practice would be 61 years less the age of the building to a minimum of 30 years). And for all buildings, if your study shows that you need an increase in your fees to get to inflation-matched increases, then get it over and done with in the next three years. It may feel painful, but it is the best path to creating a sustainable financial future for your corporation.

And to the reserve fund study providers out there offering studies that include 10- and 15-year phase-in periods at each update, please stop. The math may work long enough for you to complete the study and appease the client, but the future financial reality you are creating is nothing short of irresponsible! We have a duty of care to future owners of these condominiums, not just to today's owners. We don't need the government to force our hands; let's do the right thing now. CV

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