

Depreciation Reports: Coming Soon to a Strata Near You

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The British Columbia provincial government recently passed regulations (Regulations) pursuant to the *Strata Property Act* (Act) that require all strata properties with more than four units to have a common property depreciation report completed by December 13, 2013.

According to the Act, the depreciation report is to provide estimates for “the repair and replacement costs for major items in the strata corporation and the expected life of those items”. The strata corporation can then use that information to assist it in determining the appropriate amount for the annual contribution to its contingency reserve fund. A depreciation report is already a mandatory requirement for strata corporations in several other provinces and many US states.

Section 6.2 of the Regulations sets out the specific requirements for depreciation reports and examples of the ‘major items’ that must be evaluated therein. The depreciation report should be prepared by a qualified individual, typically an engineer or architect with proper liability and errors and omissions insurance coverage. In summary, a depreciation report must contain:

- a physical inventory of the common property, including building systems;
- anticipated maintenance, repair and replacement costs for common expenses projected over 30 years; and
- a financial forecasting section that contains at least three cash flow funding models for the contingency reserve fund.

The provincial government anticipates that depreciation reports will assist strata owners with the prudent management of their common property by providing information on repairs and replacements that will need to be funded, as well as

determining the amount that should be contributed to the contingency reserve fund.

While depreciation reports are now mandatory under the law, the strata corporation may defer obtaining a depreciation report by passing a resolution with a 3/4 majority vote of the strata owners authorizing such deferral. If such a resolution is passed, the deferral would be valid for a maximum of 18 months, and the resolution would then need to be re-passed in order to continue to defer the report. Once prepared, the depreciation report is valid for up to three years, after which it must be updated.

It is important to note that the law does not require that the funding requirements identified in the depreciation report be implemented. While the strata corporation remains in charge of determining the amount of contingency reserve fund contributions, the provincial government has now made it easier for a strata corporation to build up its reserve fund levels by eliminating a barrier which in the past has prevented some strata corporations from meeting the maintenance and replacement requirements of their common property.

In the past, an annual 3/4 majority vote was required to increase reserve fund contributions beyond 100 per cent of a strata corporation’s operating budget, but that law has now been amended so that a strata corporation can now do so if the strata owners simply pass a majority vote to that effect.

The depreciation report can serve as valuable disclosure information for potential buyers. In fact, the Property Disclosure Statement for Strata Properties provides a specific inquiry regarding the possible existence of a depreciation report. Owners of strata properties can expect prospective buyers to inquire about the existence of a depreciation report and request its production if one has been prepared. Furthermore depreciation reports may be requested by mortgage providers as part of their financial risk assessment process.

A strata corporation that has organized its affairs to incorporate long-term planning and integrated maintenance in accordance with a depreciation report will likely be well positioned to maintain its building systems, protect its common property assets and reduce the costs to strata owners associated with unexpected failures of such systems or assets, and the potentially costly consequential damage. If a strata corporation defers the preparation of a depreciation report, it may negatively affect the marketability of strata units as well as the ability of potential buyers to obtain mortgage funding or current owners to obtain refinancing.

For more information on depreciation reports, visit www.housing.gov.bc.ca/strata/regs.

Thank you to Brian Taylor for providing this article.

