

# Spending too little can cost big dollars

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During the past year, condominiums in Alberta have too often been a news item because of owners being affected by costly repairs.

There have been horror stories of buildings needing to be evacuated, with special assessments of \$60,000, \$100,000 and even \$187,000 per owner being levied. Lenders and default insurers are being cautious.

What does this all mean? When a building has the need for immediate repairs that are totalling millions of dollars, there is typically one of two scenarios going on - deferred maintenance, or building construction deficiencies.

Often, it is a combination of both. Both of these scenarios are detectable and solvable if the governors responsible for the management of the condo project take the steps required to investigate, monitor and plan appropriately for immediate and ongoing maintenance, as well as long-range capital replacement expenses.

Take a look at one of our condo project clients (which I shall not name).

The project was built in the early '90s and is now about 20 years old.

The building was well-constructed and included amenities such as underground parking, an indoor pool, tennis courts, courtyards, social rooms, office, and more than 200 residences.

For the past 20 years, the owners of the units, supported and demanded that the board of directors keep the fees as low as possible.

Many owners rented out the units and really didn't care to invest in the property. Their goal was to cover their mortgage and fees with the rental income.

Being able to rent for low rents ensured the unit was never vacant.

For the past 20 years, 70 per cent of the units continued to be rented with this "no spending" mindset from the board of directors and the majority of individual owners.

After 20 years of neglect and mismanagement, the property needed everything from mechanical

system repairs and replacement, to parking lot paving.

Cleaning and removal of junk stored in common areas required several truckloads being hauled to the dump.

Do you think the owners welcomed the need to spend money and to enforce the bylaws?

This is what it took to get this property cleaned up and back to a pristine, respectable condition that an owner would be proud to live in and be able to sell for top dollar.

Owners did not thank the board for the years of saving them money; instead, they became angry and protested and petitioned to remove the board and property manager that were now providing leadership and cleaning up this project.

Within less than two years, the now competent board of directors, under the leadership of a competent property manager, had revived this property.

All owners are benefiting from its facelift, including those that protested and resisted.

Some owners lost their property to foreclosure because they were determined not to pay their share.

They lost their investment for not being realistic about the need to invest in the property to net a return on that investment.

There are too many of these projects that are struggling to repair what is needed and that are in disarray due to bylaws not being enforced and condo fees being kept low.

In the end, the cost to sustain property values is real, measurable and for the most part, predictable.

For many of the condos which have been the focus of recent news stories in Calgary, when I took the time to check our files, I discovered we have completed a number of document reviews for these condominiums.

In all of the reports we did on these condos that became newsworthy, we had informed the buyers that there were not enough funds in the reserve - that the reserve accounts were not healthy.

We noted that there were several references to things such as water, envelope and membrane problems, decisions to do temporary repairs, engineers reports stating there is a lot of work major required ... and on and on.

We detail item after item in our reports so that buyers are informed before they purchase.

This information is available in the documents that are available to owners as well as buyers - so why

are owners surprised when they get the bad news?

These large assessments are foreseeable and inevitable when condo owners encourage boards to keep fees low.

When we do a review, we are not always able to determine the amount of the cash call needed to get caught up.

However, common sense says that as the years go by without addressing the major issues, the damage grows along with the costs of repair.

At the end of the day, the board of directors and the professional managers know that they need to mitigate the damage early and plan for remediation to keep costs managed.

It is not easy for board members to raise fees when the economy is dropping, or to do a cash call (special assessment) when they know their neighbours are experiencing an economic crunch.

The fact is that it is the duty of a board of directors to maintain the property and to ensure property values are sustained.

Yet too frequently, this duty takes a back seat to the wrath of owners who receive an increase in fees.

In the end, the costs will increase, the assessments will become unmanageable and condominium ownership will continue to get a bad rap.

The real solution is for owners to respect that they are investing in the condominium and stop resisting the costs required to maintain that investment.

Construction deficiencies exist in all buildings. This is a fact.

Some have more deficiencies than others and in some cases, there is negligence by a developer or contractor.

This is true for all properties, singlefamily homes and commercial buildings, not just condominiums.

It is the duty of the "governors" of the property - whether they are the owner of a single-family house or the board of directors of a condominium - to identify the problems, mitigate the damages and to get the repairs or deficiencies remedied.

As condos are governed by volunteer boards, it is important the owners support these volunteers by living in accordance with the bylaws.

They must not only pay fees and assessments on time, but pay attention to notices and newsletters

and attend the general meetings so they are informed of the problems and style of management these boards are applying.

Spending too little, too late results in big dollars being needed at some point in time.

Owners need to support boards that do their homework using professionals to encourage the boards to spend what it takes to maintain the property - and to respect how hard it is for board members to increase fees and levy assessments on fellow owners and themselves.

Being a board member in a condominium can be one of the most thankless jobs one ever has.

However, when you can walk the property proudly - knowing it is your volunteer effort that is visibly making the condominium not only a home with peace of mind, but a great investment - the rewards are many.

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