



MEMORANDUM

TO: STRATA COUNCIL MEMBERS

FROM: STRATAWEST MANAGEMENT LTD.

RE: DEPRECIATION REPORT SEMINAR SUMMARY

I would like to extend our sincere thanks to the 90 plus council members that attended and participated in our event on June 27th and, of course, to the speakers themselves. The attached documents provide a summary of the presentation featuring David Albrice from RDH Building Engineering and Pat Williams from Clark Wilson, LLP, along with some additional information that you may find beneficial.

The package begins with an introduction that includes section 94 of the Strata Property Act, important dates to keep in mind, and some brief commentary from Stratawest Management. Following this is a summary of the presentation from David Albrice of RDH including some key points and a condensed version of the related Power Point slides. Pat Williams of Clark Williams, LLP was kind enough to provide his speaking notes and they form the basis of the summary of his commentary, providing associated topics and issues that can be looked into further if you are so interested.

Lastly, we are pleased to have received permission to circulate the excellent "What to Know about Depreciation Reports" bulletin (in its entirety without modification or amendments) courtesy of the Condominium Home Owners Association. While this bulletin did not form part of the seminar presentation materials, it provides a tremendous amount of information on the topic of Depreciation Reports and we believe that you will find it very useful as a reference tool.

We wish to take this opportunity to thank you for your business and to once more extend our appreciation to the Strata Council of King's Landing for hosting the seminar. We hope that you find this summary package informative and helpful, and look forward to assisting you in navigating whatever path you choose related to this matter.

Cory Pettersen
President

Summary of Stratawest Depreciation Report Seminar June 27, 2012

Strata Property Act

For reference, section 94(2) of the Strata Property Act reads as follows (with our emphasis added regarding the related Regulation 6.2):

Depreciation report

94 (1) In this section, "qualified person" has the meaning set out in the regulations.

(2) Subject to subsection (3), a strata corporation must obtain from a qualified person, on or before the following dates, a depreciation report estimating the repair and replacement cost for major items in the strata corporation and the expected life of those items:

(a) for the first time, the date that is 2 years after the coming into force of this section; **[December 13, 2013]**

(b) if the strata corporation has, before or after the coming into force of this section, obtained a depreciation report that complies with the requirements of this section, the date that is the prescribed period after the date on which that report was obtained; **[Regulation 6.2(7)(a) – every three years]**

(c) if the strata corporation has, under subsection (3) (a), waived the requirement under this subsection to obtain a depreciation report, the date that is the prescribed period after the date on which the resolution waiving the requirement was passed. **[Regulation 6.2(7)(b) – 18 months]**

(3) A strata corporation need not comply with the requirement under subsection (2) to obtain a depreciation report on or before a certain date if

(a) the strata corporation, by a resolution passed by a 3/4 vote at an annual or special general meeting within the prescribed period, waives that requirement, or **[Regulation 6.2(7)(c) – one year immediately preceding the date the depreciation report is required]**

(b) the strata corporation is a member of a prescribed class of strata corporations. **[Regulation 6.2(8) – less than 5 strata lots]**

(4) A depreciation report referred to in subsection (2) must contain the information set out in the regulations.

Depreciation Report Timeline & Important Dates

- *Depreciation Report (first one) – due December 12, 2013*
- *Depreciation Report (if previously done) – update due every three years (updates must meet the current criteria including three cash flow models for the CRF relating to the maintenance, repair and replacement of capital assets over 30 years [Regulation 6.2] – also see attached March 2012 CHOA article for further details). If a previous Depreciation Report does not comply with the criteria, then it is considered as not done and the strata corporation has the same deadline to get it properly updated (December 12, 2013).*
- *¾ Vote Resolution waiving Depreciation Report – for the first report, the ¾ vote resolution waiving the requirement must be passed between December 13, 2012 and December 12, 2013 in order to bypass the December 12, 2013 deadline. If this requirement is not waived at the following year's AGM, the Depreciation Report must be completed within 18 months of the last time it was waived (likely around six months after the most recent resolution to waive fails or is not voted upon which allows minimum time to commission and complete the report).*

While there are arguments to be made for and against (and there are certainly strata corporations for which waiving of the requirement or deferring commissioning the Depreciation Report for the time being may be the right decision), Stratawest is of the opinion that the Bill 8 Strata Property Act amendments related to Depreciation Report requirements are a good thing for the industry and for maintaining the value and marketability of your home. If the strata corporation agrees and wants to proceed with commissioning the report, it is important to get the resolution on the AGM agenda now and approve the funding or include funds within the next fiscal year's proposed Operating Budget in order to be in a position to engage a qualified firm to produce the Depreciation Report on time.

If the strata council feels it is in the best interests of the strata corporation to waive (or 'defer') the requirement – even though this will not be done until after December 2013 – we suggest it is wise to add the topic 'Depreciation Report' to the next general meeting agenda so that the owners are aware of the requirement and have an opportunity to discuss it and provide direction to council.

The dates are very important, so please keep in mind that if the strata corporation intends to waive the statutory requirement for a Depreciation Report, the requirement may be waived at a general meeting beginning December 13, 2012. The strata council and the respective ownership need to realize that this is not a permanent release, but rather a postponement for the current 18-month 'term'. In the event that a strata corporation does not intend to proceed with the Depreciation Report in the future, they should include a ¾ vote resolution to waive the requirement to complete a Depreciation Report on the AGM agenda each year to avoid running afoul of regulation 6.2 (7)(b) that states that the Depreciation Report must be completed within 18 months of the last time owners waived with the requirement by a ¾ vote resolutions noted above.

Presentation from David Albrice - RDH Building Engineering

David Albrice, RDH, provided a 45-minute presentation on Depreciation Reports and has kindly provided a condensed version of the related Power Point slides as a separate attachment. During his talk, David described how Depreciation Reports are prepared using a team of specialists to do a visual inspection (i.e. no destructive testing) of the physical building and its components, after reviewing all the relevant building documents (financial, technical, maintenance and legal documents pertaining to the strata corporation), as-built drawings/blue prints, minutes regarding maintenance repairs, etc. and interviews of key personnel. The information will then be organized into a 30-year plan, which is the Depreciation Report. The following are some other key points from the discussion:

- *The consultants will also review the financial status of the strata corporation and develop three funding models: (a) one requiring substantial monthly contributions to bring the fund up to full funding, (b) one requiring a few special assessments and a moderate monthly contribution increase and (c) one requiring significant special assessments and a minor monthly contribution increase.*
- *It takes about two to four months to complete the report and the cost of a report varies between \$6,000 and \$20,000, with subsequent reports/updates being about half that.*
- *It was noted that over time in jurisdictions where Depreciation Reports are prepared and followed (and contributions to reserve funds are made), the value of the property will increase.*
- *When selecting a firm to prepare the Depreciation Report, it is important to stipulate that the data and calculations become the property of the strata corporation so that there is the option to change firms in the future if necessary and not start over at square one.*
- *The market will push the need to have the Depreciation Report done, as experience in other jurisdictions that have enacted similar legislation shows that lending institutions will not grant mortgages on properties where it has not been done. Experience also indicates that strata corporations that rely heavily on Special Assessments to fund Major Repairs and Replacements are more challenging to sell.*
- *The Depreciation Report is not confidential therefore it is advisable for the strata council to review a draft and provide input before the report is finalized.*
- *The completed Depreciation Report must be attached to the Form B when selling a unit.*
- *From a liability perspective, it is probably better not to have the Depreciation Report done rather than have it done by a firm or individual who is not fully qualified.*
- *Proposals are prepared at no cost and should include:*
 - *Number of people on team (typically three to eight depending on nature of building)*
 - *Experience of the firm and those assigned to do the work (in house expertise or hired sub consultants)*
 - *Review of all assets of the strata corporation*

- Confirmation that the strata council will receive the Depreciation Report (paper and electronic versions) and all supporting documentation (including the raw data and calculations)
- Details on software if it is part of the package of the finished Depreciation Report
- The provision of a sample report
- Fixed fee for the Report ('all in' proposal preferable to a menu pricing approach)
- Proof of Errors and Omissions insurance covering all aspects of the work

Presentation from Patrick Williams – Clark Wilson, LLP

Pat Williams, Clark Wilson, LLP, provided excellent commentary on the history of the legislation, noting that B.C. is simply less developed in the specific area of Depreciation Report requirements than some other provinces. All of the Bill 8 Amendments were briefly discussed and then the focus turned to Depreciation Reports and Mr. Williams provided his thoughts and opinions on the various related topics.

One important piece of advice to keep in mind – Mr. Williams advised that the Act requires that a “qualified person” prepare the report without defining a “qualified person” and there are many, many companies and individuals stepping up and declaring themselves a “qualified person.” It is therefore essential that the strata council perform adequate due diligence before engaging a firm to provide the Depreciation Report and not simply take the lowest quote. The following are some other key points from the discussion:

Background

- *B.C. is less advanced compared to other jurisdictions such as Ontario and the Prairie provinces who already have Depreciation Report legislation in place.*
- *Bill 8 Amendments include many changes to the Strata Property Act with the more substantial changes including Depreciation Reports, auditing and dispute resolution.*
- *A number of legislative changes were enacted in December 2009, but more substantial changes were included in the detailed regulations that came into effect the following year.*
- *December 13, 2011 – Depreciation Report, Form B and CRF regulations legislation enacted.*

New Regulations

- *Contingency Reserve Fund (CRF) - Until the CRF reaches 25% of annual operating budget, strata corporations must transfer 10% of the total operating budget into CRF. After the CRF reaches 25%, no minimum contribution amount is necessary. Once 100% of annual operating budget has been collected, there is no longer any requirement to obtain 3/4 vote to transfer funds into CRF.*
- *Depreciation Report – discussed below.*

➤ *Form B changes (two dates):*

- (i) *As of March 1, 2012, rules, the budget, Owner Developer's Rental Disclosure Statement and most recent section 94 Depreciation Report, if any, must be attached to the Form B.*
- (ii) *As of January 1, 2014, the Form B must also include parking stall and locker number allocated or available.*

Depreciation Report

➤ *Section 94 of the Strata Property Act - was voluntary, but is now mandatory unless exempted or waived.*

➤ *Issues*

- *Transition – strata corporations must have a Depreciation Report by January 2014, unless exempt or waived.*
- *Exempt if fewer than five strata lots in strata plan.*
- *Waived with 3/4 vote resolution at AGM or SGM.*
- *Qualified person – included in s. 94 and defined per regulation 6.2(6):*

For the purposes of section 94 (1) of the Act, "qualified person" means any person who has the knowledge and expertise to understand the individual components, scope and complexity of the strata corporation's common property, common assets and those parts of a strata lot or limited common property, or both, that the strata corporation is responsible to maintain or repair under the Act, the strata corporation's bylaws or an agreement with an owner and to prepare a depreciation report that complies with subsections (1) to (4).

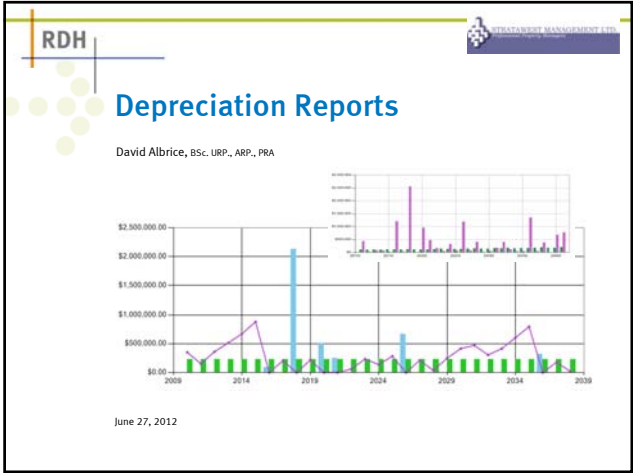
A qualified person is hard to define, but the qualifications are key and could be subject to future liability litigation if the Depreciation Report is found wanting. Strata Councils must be very careful if person chosen to prepare Depreciation Report is an occupant within the Strata Corporation.

- *Opt out resolution needed – 3/4 vote resolution*
 - *Timing at AGM – resolution should take place before annual operating budget vote – whether the waiver is passed will determine if budget needs to be amended.*
 - *No requirement to have a 3/4 waiver vote – only required if wish to opt out of Depreciation Report requirement.*

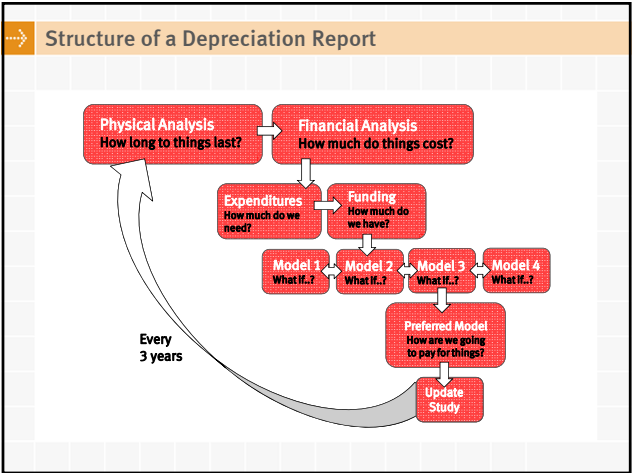
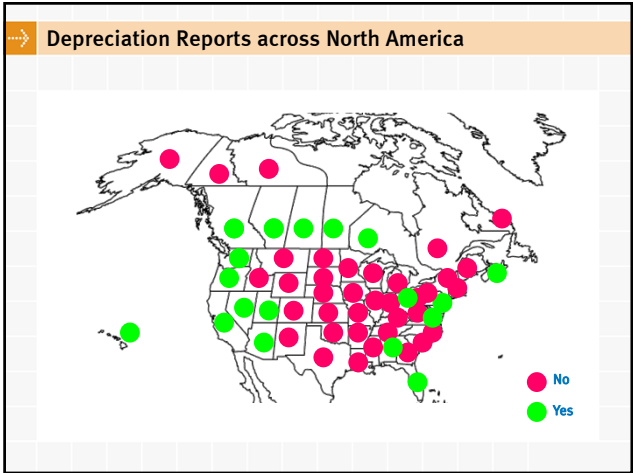
- *Time periods:*
 - *Must be obtained by December 31, 2013;*
 - *Once obtained, must be updated every three years;*
 - *If waived, must be waived one year before December 31, 2013 – essentially next AGM;*
 - *Second and subsequent waivers on yearly basis (in other words, a waiver is only effective for the current fiscal year);*
- *How can you fund the Depreciation Report?*
 - *75% v. 50% dilemma – if part of budgeting process, only a majority vote is required. Otherwise, need a 3/4 vote which might be much harder to obtain.*
 - *Models – at least three funding models must be included in the report – expect the engineer to address this topic.*
 - *Cost of Depreciation Report - typically between \$6,000 and \$20,000, depending upon makeup and size.*

Conclusion – Should you or shouldn't you?

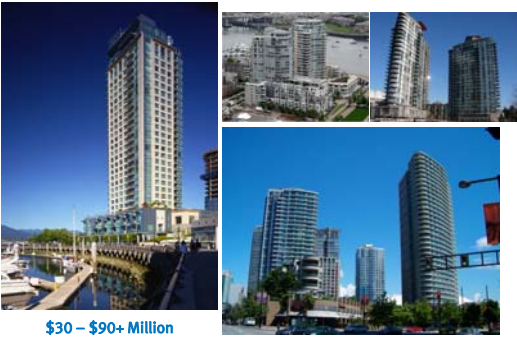
- *Not obtain or obtain and not fund? No penalty in SPA or Regulations BUT will affect market value. Lenders and purchasers will become more likely to not complete a sale if Form B obtained which states either there is no Depreciation Report, or even worse, a Depreciation Report exists, but has not been followed.*
- *Disclose? Section 36 of SPA requires that the Depreciation Report must be produced upon request to owner or anyone requesting same with authority of owner (request must be in writing).*
- *Minutes? Strata Council must resolve to obtain Depreciation Report. That resolution and eventual receipt of Depreciation Report should be recorded in the council meeting minutes.*



- RDH
- ### Agenda
1. Background
 2. Process
 3. Analysis
 4. Discussion




→ High-Rise Towers



\$30 – \$90+ Million

This slide features a collage of five photographs of high-rise towers. The largest image on the left shows a tall, modern glass skyscraper with a blue sky background. To its right are two smaller images: one of a cluster of modern high-rises and another of two tall, cylindrical towers. Below these are two more images: one of a modern high-rise with a curved facade and another of a tall, cylindrical tower. The text "\$30 – \$90+ Million" is displayed in blue at the bottom left of the collage.


→ Low-Rise Buildings



\$6 Million – \$30 Million

This slide features a collage of five photographs of low-rise buildings. The largest image on the right shows a modern, multi-story building with a white facade and large windows. To its left are two smaller images: one of a modern, multi-story building with a white facade and another of a modern, multi-story building with a white facade. Below these are two more images: one of a modern, multi-story building with a white facade and another of a modern, multi-story building with a white facade. The text "\$6 Million – \$30 Million" is displayed in blue at the bottom right of the collage.

→ Townhouse Complexes




\$3 Million – \$25 Million

This slide features a collage of five photographs of townhouse complexes. The largest image on the right shows a row of townhouses with a dark roof and a paved street. To its left are two smaller images: one of a row of townhouses and another of a row of townhouses. Below these are two more images: one of a row of townhouses and another of a row of townhouses. The text "\$3 Million – \$25 Million" is displayed in blue at the bottom left of the collage.

RDH
Process

High-Rise Low-Rise Townhouse



This slide features the RDH logo at the top left, consisting of the letters "RDH" next to a stylized graphic of dots. Below the logo is the word "Process". Underneath "Process" are three labels: "High-Rise", "Low-Rise", and "Townhouse". Below each label is a corresponding image: a high-rise building, a low-rise building, and a townhouse complex. The images are arranged in a row.


Review the Reference Documents

Financial Documents <ul style="list-style-type: none">→ Operating budget→ Balance sheet→ General ledger→ Copies of invoices→ Insurance certificate/appraisal	Technical Documents <ul style="list-style-type: none">→ Drawings→ Prior investigation reports→ Annual fire inspection report→ Maintenance manuals→ Maintenance logs→ Other
Legal Documents <ul style="list-style-type: none">→ Reciprocal easements→ Service agreements→ Air Space Parcel Agreements→ Leases and Licenses	Governance Documents <ul style="list-style-type: none">→ Strata Plan→ Bylaws

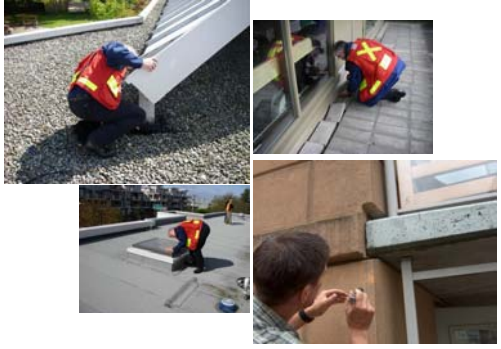
Review Documents

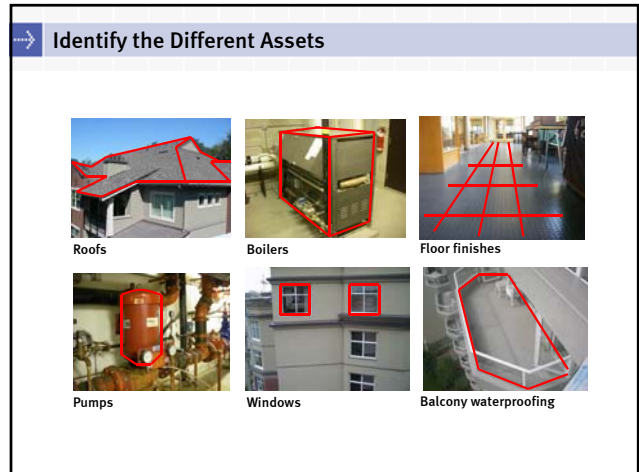
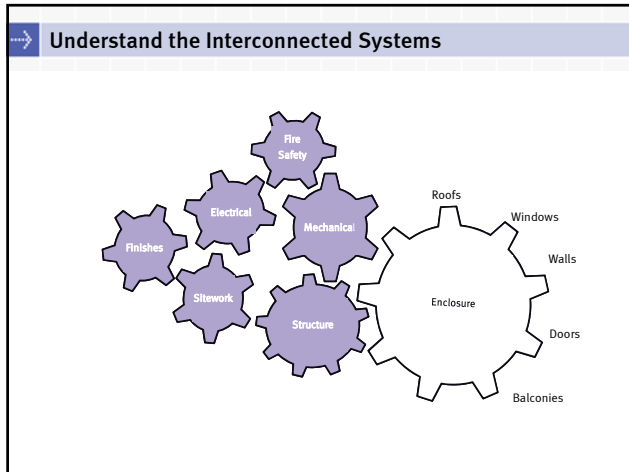


Conducts Site Visits



Examine the Assets






→ Compile the Inventory of Assets

Asset Type	Asset ID	Asset Name	Location	Description	Chronological Age	Effective Age	Service Life	Remaining Service Life	Outstanding Conditions
Traction	Elev 1	Gearless Traction Elevators	Roof/Top machine room	Otis gearless overhead traction elevators with Otis Elevonic 401 controls, variable voltage DC drive, Otis gearless machine, 3500 lbs capacity, 500 fpm rated speed.	21	22	25	3	0
	Elev 2	Elevator Cabs & Hoistway	Cab and travelling hoistway from parkade level to penthouse level.	Single speed front opening doors, plastic pushbutton operating panel, LED segment position indicators, infrared door protection, Unitec OVL T110200 door operators, wood and glass walls and the flooring, standby power, firefighters emergency operation.	12	12	15	3	0




Identify Maintenance Requirements

Routine Maintenance




- Weekly, monthly, quarterly, semi-annual
- Example: Vacuum the hallway carpets
- Paid from the operating budget

Non-Routine Maintenance




- Every 2, 3, 5, 10 years
- Example: thermal scanning of electrical panels
- Paid from the reserve fund

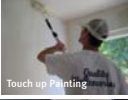
Routine Maintenance Examples




Floor polishing (weekly)




Carpet Steam Cleaning (annual)




Touch up Painting



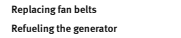
Pressurewashing



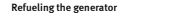
Window Washing (semi annual)



Boiler Servicing (quarterly)



Replacing fan belts



Refueling the generator

"Major Maintenance" Requirements



Infrared scanning (5 years)



Exterior painting (8 years)



PX Hydrostatic tests (6yrs)



Sealant replacement



Electrical vault shutdown and cleaning
Heat exchanger tube bundle cleaning



Sump pump cleaning



MAU rebuild (8 years)



Augering of the roof vents




Pressure flushing perimeter drain tile




Scoping camera survey of drain lines


Take Measurements



Walking Wheel

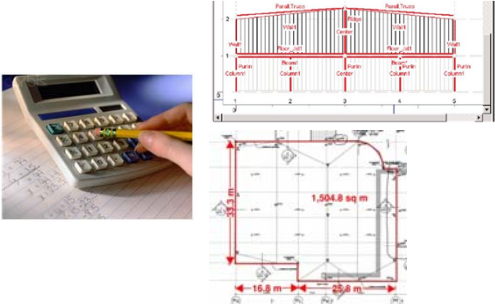


Tape Measure




Laser Measure

Run Calculations



The image shows a hand operating a calculator next to two architectural drawings. The top drawing is a cross-section of a building showing structural elements like columns and beams. The bottom drawing is a floor plan of a rectangular building with dimensions: 16.8 m by 92.4 m, and a total area of 1,564.8 sq m.

Submit the Report to Council and Management



The image shows a CD-ROM in a jewel case next to a table of contents for a report. The table of contents lists the following sections:

1. Introduction
2. Evaluation of Assets
- 2.1. Physical Assessment
- 2.3. Financial Assessment
3. Major Maintenance and Renewals
- 3.1. Maintenance Plan
- 3.2. Renewals Plan
4. Project Planning
- 4.1. "Strategic" Planning Horizon
- 4.2. "Tactical" Planning Horizon
- 4.3. "Operational" Planning Horizon
- 4.4. Project Implementation Strategies
5. Funding Scenarios
- 5.1. Alternative Funding Levels
- 5.2. Funding Scenario "A" - Baseline (Status Quo)
- 5.3. Funding Scenario "B" - Statutory
- 5.4. Funding Scenario "C" - Threshold
- 5.5. Funding by Individual Owners
6. Recommendations

Present the Report to Council and Management

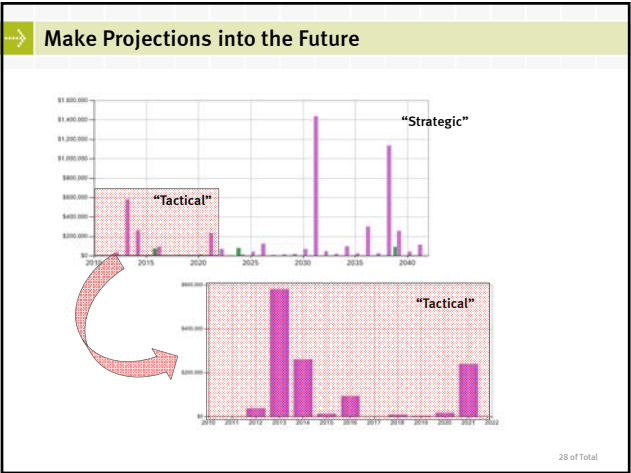
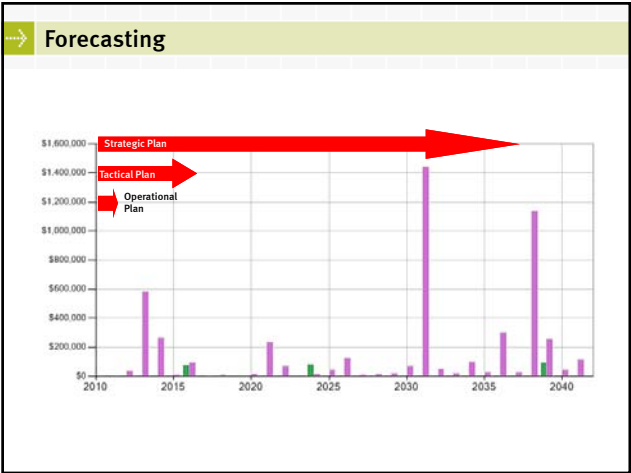
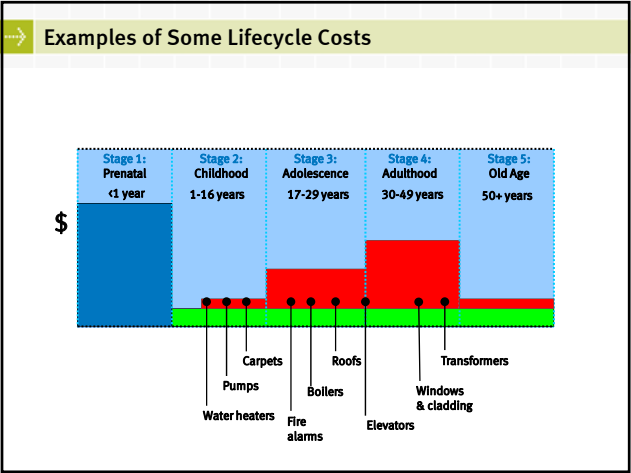
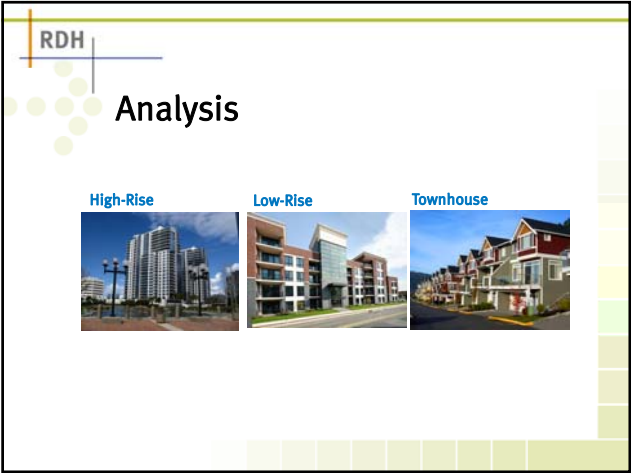


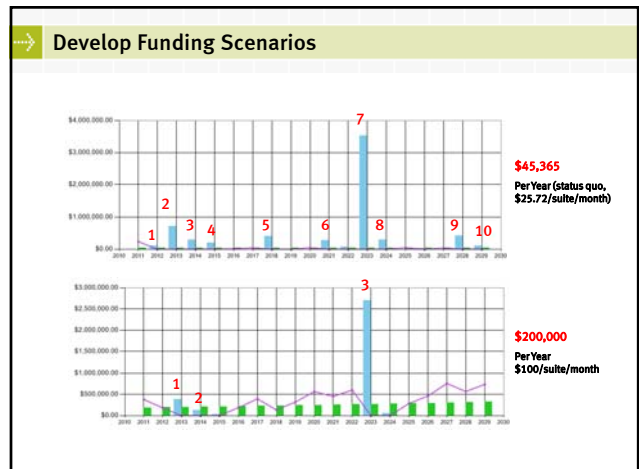
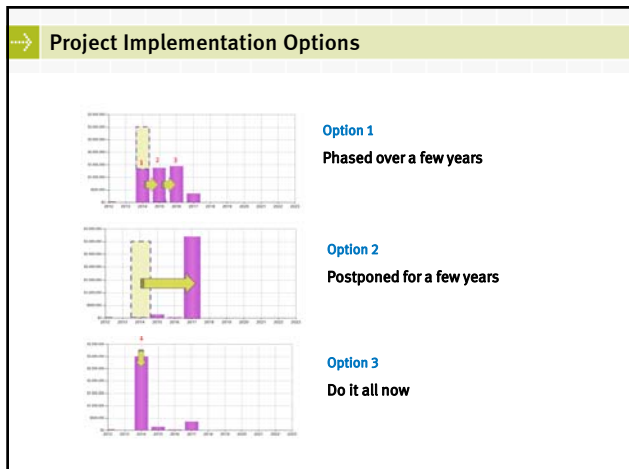
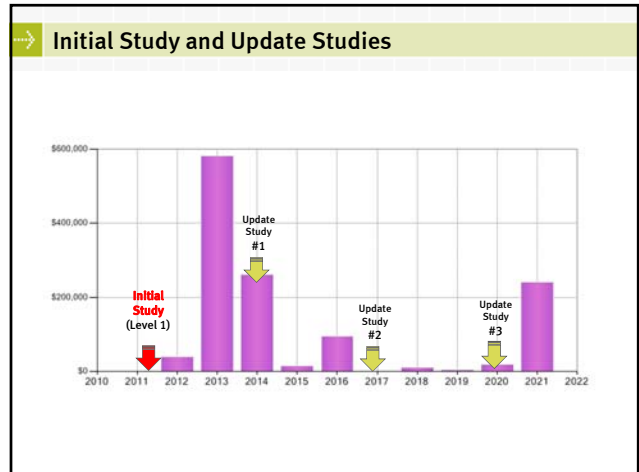
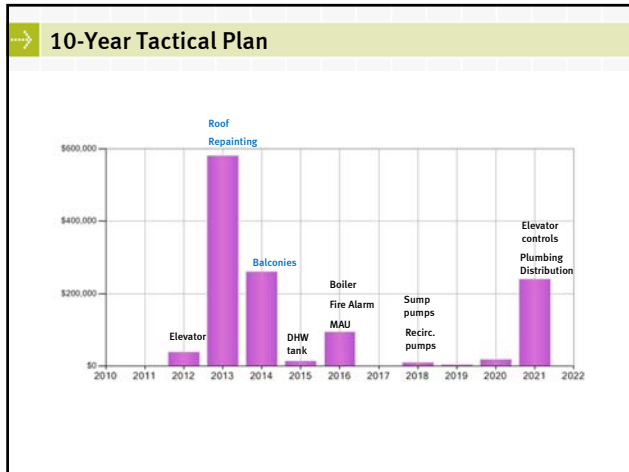
The image shows a group of people sitting around a conference table in a meeting room, engaged in a discussion. There are laptops and papers on the table.

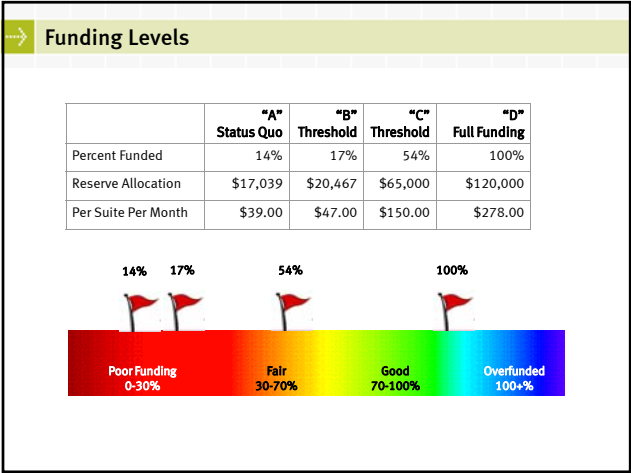
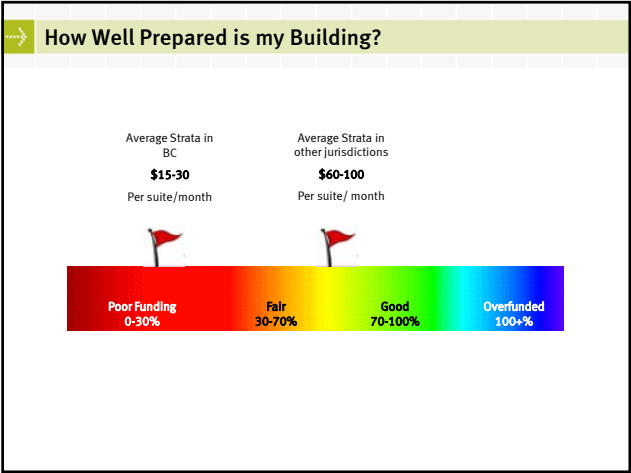
Present the Report to the Owners



The image shows a person presenting to a group of people in a large hall. A large screen in the background displays a map of a building complex.









→ Value of a Depreciation Report

No Depreciation Report



Lots of surprises; not much peace of mind
"Failing to plan is planning to fail"

With a Depreciation Report



Few surprises; peace of mind
"Plan the work and work the plan"

RDH

Questions

WHAT A STRATA CORPORATION NEEDS TO KNOW ABOUT DEPRECIATION REPORTS

What is a depreciation report?

A depreciation report is a legislated planning requirement for strata corporations in British Columbia. Depreciation reports are used to establish long term planning for common property and common assets to determine:

- 1) What assets you own (an inventory)
- 2) The asset condition (evaluation)
- 3) When things need to be replaced (the anticipated maintenance, repair and replacement)
- 4) How much money you currently have (contingency reserve report)
- 5) What it is likely to cost for future replacement (a description of the factors and assumptions in projecting costs)
- 6) How you are going to pay for the costs (three cash flow models projecting 30 year replacement periods)

The regulations have set out requirements for time periods of the reports, qualifications of persons providing reports, schedules for updates, disclosure of reports, conditions of the reports and what information must be contained and financial planning and disclosure.

Which Regulations were passed or amended on December 13, 2011 that relate to depreciation reports and the contingency reserve fund?

As of December 13, 2011, a depreciation report is a mandatory function of strata corporations in the Province of British Columbia. Strata Corporations who are not exempt, must comply with the provision by December 13, 2013. Strata corporations with fewer than 5 strata lots, and those strata corporations who pass an annual three quarter vote, are exempt from the requirement.

On December 10, 2009, Bill 8, the *Strata Property Amendment Act* came into effect. At that time, only a limited number of the sections came into effect, with section 15 of the amendments, depreciation reports, being deferred. The regulations passed on December 13, 2011 brought section 15 into effect, and implemented the regulations that identify the requirements for depreciation reports as well as the inclusion of changes to Form B Information Certificates which take effect on March 1, 2012 for depreciation reports, and January 1, 2014 for parking stalls and storage lockers.

What can we do as strata corporations at this time to start the process of planning for a depreciation report?

If your strata corporation does not pass a three quarter vote for exemption from the requirement, then you will be required to have a report completed by December 13, 2013. To start the process your strata corporation can contribute greatly to the ease of providing the depreciation report and economizing by gathering all of your records and documents that are specific to your type of strata corporation. A sample list follows that illustrates the types of records and documents the person preparing the depreciation report may need to review. In the absence of documents, the person preparing the depreciation report will need to make some reasonable assumptions. For smaller strata corporations your document requirements may be limited; however, at the minimum a copy of the registered strata plan, any registered bylaw amendments, and any property conditions will be important for the first stages of the proposals and planning.

Documents & Records

- **Operating budget**
- **Current balance sheet, including the contingency reserve fund balance and any investments & assets**
- **General ledger**
- **Copies of invoices relevant to operations and repairs**
- **Current insurance certificate or insurance appraisal**
- **Any reciprocal easements/Service agreements/Air Parcel Agreements**
- **Any leases and licenses (enterphone systems, parking garage use)**
- **Any agreements granting third party use and access of the strata property**
- **Prints, plans and drawings – architectural, structural, mechanical, electrical, fire protection and other systems.**
- **Any prior investigation reports: maintenance, repair, investigation etc.**
- **Annual fire inspection report**
- **Maintenance manuals**
- **Maintenance logs**
- **Registered strata plan & any amendments**
- **Registered bylaws & any amendments**
- **Any bylaws where the strata corporation has taken responsibility for the maintenance and repair of part of a strata lot**
- **Any information & bylaws relating to sections**
- **Any registered allocations of Limited Common Property**
- **Any alteration agreements where an owner has taken responsibility for the cost of the maintenance or renewal of the alteration**
- **Lawsuits or arbitration decisions that impact property use, maintenance repair or obligation**

To simplify the depreciation report process, and to assist with accurate long-term archiving of documents, it is recommended documents, including the large scale drawings, be scanned into electronic format if possible to use when preparing the depreciation report.

Who is a “qualified person” that will develop the depreciation report?

Regulation 6.2(6) broadly defines who is qualified to develop your depreciation report.

(6) For the purposes of section 94 (1) of the Act, “qualified person” means any person who has the knowledge and expertise to understand the individual components, scope and complexity of the strata corporation’s common property, common assets and those parts of a strata lot or limited common property, or both, that the strata corporation is responsible to maintain or repair under the Act, the strata corporation’s bylaws or an agreement with an owner and to prepare a depreciation report that complies with subsections (1) to (4).

In addition to providing a legislated planning tool for renewals, maintenance and financial planning for the strata corporations, the depreciation report imposes a significant level of responsibility on the strata corporation. The report will become a significant document in assessing property asset value and must be disclosed in a Form B Information Certificate. The report may be used by insurance providers, mortgage providers, mortgage insurers, and most of all, buyers. This is an official report, and may be used to determine a buyer’s qualification’s for a mortgage, to establish risk for insurers, and for buyers to determine their future liabilities before they decide to make an offer for purchase. Throughout all of these transactions third parties are relying upon the information in the depreciation report which could result in potential liability for the strata corporation with respects to the accuracy and reliability of information in the report.

What is the duty of the qualified person preparing the report?

The person preparing the report will have a duty to disclose in the report their qualifications, their relationship with the strata corporation and whether or not they carry errors and omissions insurance, as well as a description of that insurance. Their qualifications will have a direct link to their duties under the regulations. The qualified person will be required to:

- Provide an inventory of the strata corporation’s common property common assets, and any limited common property or part of a strata lot that the strata corporation has a duty to maintain, repair and renew.
- Provide an evaluation of the inventory by performing a physical review of the site and the components.
- Provide an evaluation that addresses the following requirements:
 - Estimate the service life of the assets over the next 30 years
 - The anticipated maintenance, repair and replacement costs that usually occur less than once per year
 - Evaluation of the components (the current condition)
 - Financial evaluation of the factors and assumptions used in estimating the costs over the 30 year period
 - A description of how the contingency reserve fund is currently being funded, along with a current balance, minus any expenditures that have been approved but not yet taken from the fund, and
 - At least three cash flow models for the contingency reserve fund relating to the maintenance, repair and replacement over 30 years.

What skills will be necessary for the person / team / firm providing the report?

- The ability to read and interpret technical documents and drawings.
- The education, experience and knowledge to be able to conduct on site inspections of building components and provide a reliable assessment of their condition and remaining life expectancy.
- A knowledge of building systems, building codes, plus an understanding of material defects, product compatibility, product availability and new technologies.
- An understanding of the structure and governance of strata corporations and their legislated obligations for maintenance, repair and replacement of components, with an understanding of the application of strata corporations that have duly constituted sections, air parcel agreements, and multiple strata corporations that share joint facilities.
- An understanding of strata corporation financial obligations for annual budgets, contingency reserve funds and special levies.
- The ability to financially project and prepare at least three different cash flow models over 30 years.

Who do we hire to do the depreciation report?

Several of the following professions may have the skills and qualifications necessary to prepare a depreciation report.

- A person who is a registered professional engineer with the Association of Professional Engineers and Geoscientists of B.C.
- A person who holds a certificate of practice within the meaning of the Architects Act of B.C.
- A person who is a member of the Real Estate Institute of Canada and holds the designation of a certified reserve planner
- A person who is a member of the Appraisal Institute of Canada
- A person who is a member of the Canadian Institute of Quantity Surveyors and holds the designation of professional quantity surveyor.
- Other persons who meet the qualifications and skills required.

Any one of the above designations unto itself is not a complete representation of a person's qualifications or skills. A depreciation report requires technical, financial planning, and management skills. This combination of expertise may be difficult to find in one individual. Depending on how complicated and extensive your strata corporation is, this may mean your depreciation report is prepared by a team of professionals rather than an individual. A review of the experience of the person, references, the ability to provide errors and omission insurance, samples of reports and any other relevant documentation that attests to the knowledge and competency of the person are all a part of finding the right person to conduct your depreciation report.

Do the Regulations permit our strata corporation to conduct our own Depreciation Report?

Technically, the regulations do not prohibit a strata corporation from preparing their own depreciation report; however, consider the requirements of the Act & Regulations and the liabilities first. A person (when applied also means the consulting firm or group of certified professionals who make the proposal) is going to have to be identified as providing the report. If it is the strata corporation providing their own report, then it will be disclosed in the report that the information has been provided by the strata corporation, and/or specific individuals. You will have to disclose in the report who that is and the liability, qualifications and competency of that person. In addition to providing a planning tool for renewals, maintenance and financial planning for the strata corporation, the report also imposes a level of liability on the strata corporation for accuracy. Remember that the report may be used by insurance providers, mortgage providers and mortgage insurers, and most of all, buyers. This is an official report, and will be used to determine a buyer's qualifications for a mortgage, to establish risk for insurers, and for buyers to determine their future liabilities, before they make a decision or make an offer for purchase. Throughout all of these transactions, the strata corporation is exposed to liability.

How does a strata corporation manage the liabilities of possible inaccurate information or errors in reporting information?

Ultimately, the strata corporation and the person(s) in the strata corporation who do the depreciation report are left with the complete scope of liability with no recourse against a 3rd party. If there is an error, resulting in an action for damages against the corporation, does the strata corporation have any coverage under the directors and officers liability insurance, with respects to having provided this service? Every insurance policy has unique terms, conditions and exclusions, and before a strata corporation ventures into creating and providing the depreciation report, they are advised to contact their insurance broker to determine the extent of coverage under these conditions.

Who makes the decision to provide your own report?

Before you perform your own service work, has this been a decision of the strata council or the owners at a general meeting, and are they aware that they are assuming these liabilities before they make this decision? The Strata Property Act holds council members to a standard to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances; however, these conditions are not likely that of a volunteer in light of the conditions set out by the regulations. Section 31(b) of the *Strata Property Act* and section 6.2 (6) of the Regulations, set out the interpretation of a "qualified person" to mean any person who has the knowledge and expertise to understand the individual components, scope and complexity of the strata corporation's common property, common asset and those parts of a strata lot or limited common property, or both, that the strata corporation is responsible to maintain or repair under the Act, the strata corporation's bylaws or an agreement with an owner and to prepare a depreciation report that complies with subsections (1) to (4).

Can our strata corporation be exempt from the need for a depreciation report and what are the implications of such a decision?

One of the most valuable benefits of a depreciation report is the assembled inventory of common property, common assets, plus the portions of the limited common property and the strata lot that the strata corporation is going to have to repair, maintain and replace. There are many strata corporations that have operated with limited function under the *Strata Property Act*. The new regulations impose an additional obligation that the strata corporation complies with the regulation. Strata corporations of five or more units are required to provide a depreciation report by December 13, 2013. However, a strata corporation of five or more units may be exempted, if the strata corporation annually passes a three quarters vote at a general meeting. This will require the strata corporation to include the exact wording of a three quarters vote resolution with the notice of the general meeting and on the agenda. The minutes will then reflect the results of the three quarters vote.

However, before your strata corporation considers an exemption, consider the implications. Depreciation reports are going to be a widely used tool to manage risk for buyers purchasing in a strata corporation. A buyer and their mortgage provider or mortgage insurer may have a keen interest in a depreciation report. The absence of a report may make it more difficult for an owner to sell their unit – financial institutions may be reluctant to lend if possible special levies and other future costs are unknown. Also, buyers will be using depreciation reports to determine the accuracy of the asking price. The absence of a depreciation report may impose restrictions on the property that limit the ability to sell.

What happens if we fail to pass a three quarter vote exempting the strata corporation from the depreciation report requirement?

Normally, an exemption, if desired, would be voted on at an annual general meeting. It may also be done by calling a special general meeting. The vote should always be conducted well in advance of the next deadline for obtaining a depreciation report. The regulation specifies three such deadlines or triggers:

1. December 13, 2013 (two years after the legislative requirement came into force);
2. Three years after your last valid depreciation report was obtained; and
3. Eighteen months after any previously passed three quarter vote to exempt.

The eighteen month timeframe allows six months to complete a depreciation report if an exemption passes one year but fails at the next AGM.

How long is a depreciation report good for?

The regulation specifies that a new report must be obtained three years after the last one. These subsequent reports may be less expensive than the original baseline report as some of the information and modeling will only require updating. However, the new report must still include on-site visual inspections and cover at least 30 years from that date. Be aware that, in addition to your assets having aged since the last report, interest rates, inflation rates, and the cost of items and labour will likely have changed.

Some experts advise that depreciation reports should cover the entire expected life of the building rather than the minimum 30 years required. Such a report may be no more expensive and would give the strata corporation better information to use in planning, saving and equitably allocating costs between present and future owners.

If we are in the process of completing our depreciation report, what information do we include with the Form B?

The Form B Information Certificate, Section 59 of the *Strata Property Act*, is a document completed by the strata corporation/strata agent that discloses the specified information about the strata corporation and the strata lot for only that date of issue. If the strata corporation does not have a recent depreciation report completed, then implication of a pending report should not be disclosed. The conditions, details and financial information of pending reports may be inaccurate and are subject to change until the report is received from the person, consultant, company providing the report. Once the strata corporation, council/strata agent has received the report, it must be included with a Form B. If the strata corporation has commissioned a depreciation report, the information should be contained in the minutes of the strata council meetings, to provide notice and information to the strata corporation and any party reviewing the minutes. A new Form B, effective March 1, 2012, lists all required attachments.

Enclosed:

- Sample: Depreciation Report Request for Proposal
- Addendum: *Strata Property Act* and Regulations

SAMPLE: DEPRECIATION REPORT REQUEST FOR PROPOSAL:

PART ONE: TO BE PROVIDED BY THE STRATA CORPORATION

The owners, Strata Plan (ABC1234) are requesting proposals for a depreciation report that meet the conditions and provisions of the B.C. *Strata Property Act* & Regulations.

1. PLEASE SEND ALL PROPOSALS TO THE FOLLOWING: Email Address ☐ Mailing Address ☐ Both ☐

Email: _____

Mailing address: _____

2. THE STRATA CORPORATION IS SELF MANAGED _____ OR CONTRACTS STRATA MANAGEMENT _____

If applicable, provide the name of the strata manager , strata management company and contact info:

3. CONTACT PERSON FOR THE PURPOSE OF SUBMISSIONS & QUESTIONS:

Name: _____

Phone #: _____ Alternate phone #: _____

Email: _____ Fax #: _____

4. THE STRATA CORPORATION CONSISTS OF THE FOLLOWING INFORMATION:

Number of buildings: _____ Total number of Strata lots: _____

Sectioned strata? yes ☐ no ☐ Air parcel Agreement? yes ☐ no ☐

Number of floors: _____ Number of parkade levels: _____

Number of windows per floor: _____ Emergency Generator: yes ☐ no ☐

Type of roof: _____ Age of roof: _____

Number of Elevators: _____ Elevator cab / hydraulic upgrade: yes ☐ no ☐ / year: _____

5. PLEASE INDICATE AS APPROPRIATE:

- Type of strata corporation: residential ☐ commercial ☐ mixed use ☐ industrial ☐
shared community plan ☐ to be confirmed ☐
- Balconies: yes ☐ no ☐ / open ☐ enclosed ☐ mixed ☐
- Facilities: Laundry room ☐ recreational facilities ☐ guest room ☐ to be confirmed ☐
- Utilities: water ☐ sewage ☐ energy ☐ septic ☐ to be confirmed ☐
- Amenities: Parkade(s) ☐ elevators ☐ air conditioning ☐ to be confirmed ☐
- Green Building Components: yes ☐ no ☐ to be confirmed ☐
- Phased development: yes ☐ no ☐ to be confirmed ☐
- Type of construction: wood frame ☐ concrete ☐ other ☐ _____ to be confirmed ☐

6. DATE OF FIRST OCCUPANCY: _____

7. BYLAWS ATTACHED? yes ☐ no ☐ / hard copy ☐ electronic copy available ☐

8. REGISTERED STRATA PLAN ATTACHED? yes ☐ no ☐ / hard copy ☐ electronic copy available ☐

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For more information about CHOA please visit www.choa.bc.ca or contact the office by phone at 1-877-353-2462 or email at office@choa.bc.ca.

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9. MULTIPLE STRATA CORPORATIONS SHARING COMMON FACILITIES? yes ☐ no ☐

10. PREVIOUS DEPRECIATION REPORTS ARE AVAILABLE: yes ☐ no ☐

11. DOCUMENTATION AVAILABLE:

- All relevant documentation ☐
- Some relevant documentation ☐
- Unknown ☐
- Most relevant documentation ☐
- Minimal relevant documentation ☐

PART TWO: TO BE COMPLETED BY THE PERSON, TEAM OR FIRM PROVIDING THE DEPRECIATION REPORT PROPOSAL

1. INDICATE YOUR RELATIONSHIP WITH THE STRATA CORPORATION, INCLUDING ANY RELATIONSHIP WITH THE STRATA MANAGEMENT COMPANY ACTING AS THE AGENT OF THE STRATA CORPORATION:

2. INDICATE WHETHER YOU ARE COVERED BY ERRORS AND OMISSIONS INSURANCE FOR THE PURPOSE OF PROVIDING DEPRECIATION PLANS: yes ☐ no ☐

NOTE: A Copy of the errors & omissions insurance policy, verifying the coverage of the person /team / firm preparing the depreciation report, may be required from the successful submission

3. INDICATE THE PROPOSED TOTAL COST FOR PROVIDING THE REPORT: _____

4. INDICATE THE ESTIMATED TOTAL COST FOR THE 3 YEAR RENEWAL / UPDATE _____

5. INDICATE THE SERVICES THAT YOU WILL PROVIDE WITH THE REPORT: _____

6. WILL THE DEPRECIATION REPORT BE PROVIDED AN ELECTRONICALLY? yes ☐ no ☐

7. ARE COPIES OF PREVIOUS DEPRECIATION REPORTS CONDUCTED BY THE PERSON / TEAM / FIRM AVAILABLE FOR REVIEW? yes ☐ no ☐

8. PLEASE INDICATE THE PREVIOUS EXPERIENCE OF THE PERSON / TEAM / FIRM PROVIDING THE DEPRECIATION REPORT: _____

ALL INFORMATION EXCHANGED IN THE PROCESS OF REQUESTING AND RECEIVING INFORMATION FOR THE PURPOSE OF PROPOSALS AND CONTRACTS IS PROTECTED UNDER THE PERSONAL INFORMATION PROTECTION ACT OF BC, AND THE STRATA CORPORATION RETAINS ALL INFORMATION FOR IT'S SOLE USE. INFORMATION CANNOT BE SHARED OR COPIED TO ANY 3RD PARTY WITHOUT THE EXPLICIT WRITTEN APPROVAL OF THE STRATA CORPORATION. THE STRATA CORPORATION RESERVES THE RIGHT TO SELECT OR DECLINE ANY OR ALL OF THE APPLICANTS AT THEIR SOLE DISCRETION.

* This Request for Proposal is available in Word format – please contact info@choa.bc.ca for a copy

ADDENDUM: Strata Property Act and Regulations

Effective December 13, 2011 Section 94 of the *Strata Property Act* now reads:

- 94** (1) In this section, “qualified person” has the meaning set out in the regulations.
- (2) Subject to subsection (3), a strata corporation must obtain from a qualified person, on or before the following dates, a depreciation report estimating the repair and replacement cost for major items in the strata corporation and the expected life of those items:
- a) For the first time, the date that is 2 years after the coming into force of this section;
 - b) If the strata corporation has, before or after the coming into force of this section, obtained a depreciation report that complies with the requirements of this section, the date that is the prescribed period after the date on which that report was obtained;
 - c) If the strata corporation has, under sub section (3) (a), waived the requirement under this section to obtain a depreciation report, the date that is the prescribed period after the date on which the resolution waiving the requirement was passed.
- (3) A strata corporation need not comply with the requirement under sub section (2) to obtain a depreciation report on or before a certain date if
- a) the strata corporation, by a resolution passed by $\frac{3}{4}$ vote at an annual or special general meeting within the prescribed period, waives that requirement, or
 - b) the strata corporation is a member of a prescribed class of strata corporations.
- (4) A depreciation report referred to in subsection (2) must contain the information set out in the regulations.

Effective December 13, 2011 Sections of the Updated *Strata Property Regulations* now reads:

Contingency reserve fund contribution in first annual budget

- 3.4** For the purposes of section 93 of the Act, the amount of the annual contribution to the contingency reserve fund for the fiscal year following the first annual general meeting must be determined as follows:
- (a) if the amount of money in the contingency reserve fund at the time of the first annual general meeting is less than 25% of the estimated operating expenses for the 12 month period set out in the interim budget, the annual contribution to the contingency reserve fund under the first annual budget must be at least 10% of the total amount budgeted for the contribution to the operating fund for the 12 month period covered by that budget;
 - (b) if the amount of money in the contingency reserve fund at the time of the first annual general meeting is at least 25% of the estimated operating expenses for the 12 month period set out in the interim budget, additional contributions to the

contingency reserve fund may be made as part of the annual budget approval process after consideration of the depreciation report, if any, obtained under section 94 of the Act,

2 *Sections 6.1 and 6.2 are repealed and the following substituted:*

Contributions to contingency reserve fund

6.1 For the purposes of section 93 of the Act, the amount of the annual contribution to the contingency reserve fund for a fiscal year, other than the fiscal year following the first annual general meeting, must be determined as follows:

- (a) if the amount of money in the contingency reserve fund at the end of any fiscal year after the first annual general meeting is less than 25% of the total amount budgeted for the contribution to the operating fund for the fiscal year that has just ended, the annual contribution to the contingency reserve fund for the current fiscal year must be at least the lesser of
 - (i) 10% of the total amount budgeted for the contribution to the operating fund for the current fiscal year, and
 - (ii) the amount required to bring the contingency reserve fund to at least 25% of the total amount budgeted for the contribution to the operating fund for the current fiscal year;
- (b) if the amount of money in the contingency reserve fund at the end of any fiscal year after the first annual general meeting is equal to or greater than 25% of the total amount budgeted for the contribution to the operating fund for the fiscal year that has just ended, additional contributions to the contingency reserve fund may be made as part of the annual budget approval process after consideration of the depreciation report, if any, obtained under section 94 of the Act.

Depreciation report

6.2 (1) For the purposes of section 94 of the Act, a depreciation report must include all of the following:

- (a) a physical component inventory and evaluation that complies with subsection (2);
- (b) a summary of repairs and maintenance work for common expenses respecting the items listed in subsection (2) (b) that usually occur less often than once a year or that do not usually occur;
- (c) a financial forecasting section that complies with subsection (3);
- (d) the name of the person from whom the depreciation report was obtained and a description of
 - (i) that person's qualifications,
 - (ii) the error and omission insurance, if any, carried by that person, and
 - (iii) the relationship between that person and the strata corporation;
- (e) the date of the report;
- (f) any other information or analysis that the strata corporation or the person providing the depreciation report considers appropriate.

(2) For the purposes of subsection (1) (a) and (b) of this section, the physical component inventory and evaluation must

- (a) be based on an on-site visual inspection of the site and, where practicable, of the items listed in paragraph (b) conducted by the person preparing the depreciation report,
- (b) include a description and estimated service life over 30 years of the items that comprise the common property, the common assets and those parts of a strata lot or limited common property, or both, that the strata corporation is responsible to maintain or repair under the Act, the strata corporation's bylaws or an agreement with an owner, including, but not limited to, the following items:
 - (i) the building's structure
 - (ii) the building's exterior, including roofs, roof decks, doors, windows and skylights;
 - (iii) the building's systems, including the electrical, heating, plumbing, fire protection and security systems;
 - (iv) common amenities and facilities;
 - (v) parking facilities and roadways;
 - (vi) utilities, including water and sewage
 - (vii) landscaping, including paths, sidewalks, fencing and irrigation;
 - (viii) interior finishes, including floor coverings and furnishings;
 - (ix) green building components;
 - (x) balconies and patios, and
- c) identify common property and limited common property that the strata lot owner, and not the strata corporation, is responsible to maintain and repair.

- (3) For the purposes of subsection (1) (c), the financial forecasting section must include
- (a) the anticipated maintenance, repair and replacement costs for common expenses that usually occur less often than once a year or that do not usually occur, projected over 30 years, beginning with the current or previous fiscal year of the strata corporation, of the items listed in subsection (2) (b).
 - (b) a description of the factors and assumptions, including interest rates and rates of inflation, used to calculate the costs referred to in paragraph (a),
 - (c) a description of how the contingency reserve fund is currently being funded,
 - (d) the current balance of the contingency reserve fund minus any expenditures that have been approved but not yet taken from the fund, and
 - (e) at least 3 cash-flow funding models for the contingency reserve fund relating to the maintenance, repair and replacement over 30 years, beginning with the current or previous fiscal year of the strata corporation, of the items listed in subsection (2) (b).

(4) For the purposes of subsection (3) (e), the cash-flow funding models may include any one or more of the following:

- (a) balances of, contributions to and withdrawals from the contingency reserve fund;
- (b) special levies;
- (c) borrowings.

- (5) If a strata corporation contributes to the contingency reserve fund based on a depreciation report, the contributions in respect of an item become part of the contingency reserve fund and may be spent for any purpose permitted under section 96 of the Act.
- (6) For the purposes of section 94 (1) of the Act, “**qualified person**” means any person who has the knowledge and expertise to understand the individual components, scope and complexity of the strata corporation’s common property, common assets and those parts of a strata lot or limited common property, or both, that the strata corporation is responsible to maintain or repair under the Act, the strata corporation’s bylaws or an agreement with an owner and to prepare a depreciation report that complies with subsections (1) to (4).
- (7) The following period are prescribed
- (a) for the purposes of section 94(2) (b) of the Act, 3 years;
 - (b) for the purposes of section 94 (2) (c) of the Act, 18 months;
 - (c) for the purposes of section 94 (3) (a) of the Act, the one year period immediately preceding the date on or before which the depreciation report is required to be obtained.
- (8) A strata corporation is prescribed for the purposes of section 94 (3) (b) of the Act if and for so long as there are fewer than 5 strata lots in the strata plan.

SCHEDULE 2 - IN EFFECT MARCH 1, 2012 Order in Council No.623 Approved and Ordered Dec 13, 2011

1 Form B of the Strata Property Regulation, B.C. Reg. 43/2000, is amended by adding the following paragraph (1):

Required Attachments

In addition to attachments mentioned above, section 59(4) of the Strata Property Act requires that copies of the following must be attached to this Information Certificate:

- ☐ The rules of the strata corporation;
- ☐ The current budget of the strata corporation;
- ☐ The owner developer’s Rental Disclosure Statement under section 139, if any; and

The most recent depreciation report, if any, obtained by the strata corporation under section 94

Strata Property Act

FORM B

INFORMATION CERTIFICATE

(Section 59)

The Owners, Strata Plan [the registration number of the strata plan] certify that the information contained in this certificate with respect to Strata Lot [strata lot number as shown on strata plan] is correct as of the date of this certificate.

[Attach a separate sheet if the space on this form is insufficient].

(a) Monthly strata fees payable by the owner of the strata lot described above \$.....

(b) Any amount owing to the strata corporation by the owner of the strata lot described above (other than an amount paid into court, or to the strata corporation in trust under section 114 of the *Strata Property Act*) \$.....

(c) Are there any agreements under which the owner of the strata lot described above takes responsibility for expenses relating to alterations to the strata lot, the common property or the common assets?

___ no ___ yes [attach copy of all agreements]

(d) Any amount that the owner of the strata lot described above is obligated to pay in the future for a special levy that has already been approved \$.....
The payment is to be made by [month day, year].

(e) Any amount by which the expenses of the strata corporation for the current fiscal year are expected to exceed the expenses budgeted for the fiscal year.... \$.....

(f) Amount in the contingency reserve fund minus any expenditures which have already been approved but not yet taken from the fund \$.....

(g) Are there any amendments to the bylaws that are not yet filed in the land title office?

___ no ___ yes [attach copy of all amendments]

(h) Are there any resolutions passed by a 3/4 vote or unanimous vote that are required to be filed in the land title office but that have not yet been filed in the land title office?

___ no ___ yes [attach copy of all resolutions]

(i) Has notice been given for any resolutions, requiring a 3/4 vote or unanimous vote or dealing with an amendment to the bylaws, that have not yet been voted on?

___ no ___ yes [attach copy of all notices]

(j) Is the strata corporation party to any court proceeding or arbitration, and/or are there any judgments or orders against the strata corporation?

___ no ___ yes [attach details]

(k) Have any notices or work orders been received by the strata corporation that remain outstanding for the strata lot, the common property or the common assets?

___ no ___ yes [attach copies of all notices or work orders]

(l) Number of strata lots in the strata plan that are rented

Copies of all of the following must be attached to the certificate

- ☐ the rules of the corporation
- ☐ the current budget of the corporation
- ☐ the owner developer's Rental Disclosure Statement under section 139, if any
- ☐ the most recent depreciation report, if any, obtained by the strata corporation under section 94

Date: [month day, year].

Signature of council member

Signature of second council member

Or

Signature of Strata Manager, if authorized by strata corporation