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Webinar Series

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Insurance Appraisals and Reserve Fund Studies

“Failing to Plan is Planning to Fail”

The Real Reasons Condominiums need these reports

- ◉ Protection for Condominium Owners against loss.
- ◉ Protection against financial hardship
- ◉ Responsible and Pro active planning for future events

Insurance - The Requirements

The Condominium Act, 1998

- 99. (1) The corporation shall obtain and maintain insurance, on its own behalf and on behalf of the owners, for damage to the units and common elements that is caused by major perils or the other perils that the declaration or the by-laws specify. 1998, c. 19, s. 99 (1).

Corporation Declaration Insurance – General Provisions

Prior to obtaining any policy or policies of insurance this part, or any renewal or renewals thereof, or at such other times as the Board may deem advisable, the Board shall obtain an appraisal from an independent qualified appraiser, of the full replacement cost of the property, for the purpose of determining the amount of insurance to be affected pursuant thereto, and the cost of such appraisal shall be a common expense.

What does this really mean?

- ◉ Simply speaking, Corporations are required to carry full replacement cost insurance and prior to any policy being renewed The Corporation must seek an appraisal of the replacement cost value for the building and site improvements from an “independent qualified appraiser”
- ◉ Definition of a “qualified appraiser”
- ◉ Insurance includes coverage for “standard units”

What determines a Quality Appraisal?

- ◉ Site inspection
- ◉ Use of a professional appraisal software package to determine building value.
- ◉ Capturing Site Improvements and Site Services
- ◉ CV of Service Provider
 - Length of time in the industry
 - Size of client base
 - Appropriate E&O insurance coverage
 - Report Quality – Understanding the report
 - Reputation – Recommended & Trustworthy

Popular Feedback Related to Insurance Appraisals

- Standard Unit By-Laws and the effect on the valuation.
- Cost of replacing a development is significantly higher than to build a new one.
- Is it possible to negotiate a lower valuation?
- What are the premiums saved on a lower valuation?
- What is an appraisal update?
- Is the appraisal tied to market value?

Reserve Fund Studies

“If I would have known I’d live this long, I’d have taken better care of myself”

Why are Reserve Funds Important?

- Large ticket repairs and replacements in Condominium Developments when needed would create financial hardship for owners if they had to pay for it on demand.
- Mandatory reserve funds for Condominium Corporations were made law as part of the Condominium Act, 1998.

1st Key Component of the Reserve Fund

- Reserve Fund Study - The study required by legislation, the objective of which is to determine the amount of money required to be contributed, to insure that there is enough money for the major repair or replacement of the common elements and assets of the Corporation.
- Requires a diverse skill set including technical knowledge, highly developed financial background, quality report writing ability, client service skills and common sense.

Defining a Quality Reserve Fund Study

- Quality information – Your service provider should provide a list of required information. The more detailed the information provided, the better the report.
- Conservative Assumptions – The most important assumptions made relate to inflation and interest rates. A review of these assumptions and how they are derived can significantly affect the outcome of the reserve fund study contributions.
- Accurate costing and future value calculations.
- Determining the impact of the proposed increases on the owners and developing realistic reserve fund levels.
- Analysis of the historical reserve fund performance.

Determining Interest Rates

- The most conservative method of determining interest rates for the Corporation is to analyse the historical rates of return, both short and long term, for the Corporation.
- Unrealistic rates of return will result in artificially low contributions and shortfalls in future years as a result of never achieving targets.
- Returns on investments are the only regular contribution to the reserve fund other than those made by the owners.

Determining Inflation Rates

- Should be based on Construction Inflation and not the Consumer Price Index.
- Construction inflation is affected by labour availability, raw material costs and product availability.
- Can vary significantly by region.
- Sources of Construction inflation include Statistics Canada, Marshall & Swift, Boekh or RS Means.

Determining a Quality Reserve Fund Service Provider

- Length of time in the industry – Boards should be expecting to establish a minimum 9 year relationship.
- Right expertise for the mandate – Don't be fooled by a designation
- Conflict of Interest disclosure
- Appropriate E&O Insurance
- CV of Planner outlining experience and tenure. You hired a great firm but you might be getting the summer student.
- References – Client List
- Future Costs – What is the cost of the various updates in the future?
- Bundling – Does the service provider provide other reports required and are there discounts for doing multiple services at the same time.

2nd Key Component of the Reserve Fund

- The Reserve Fund Plan – The Plan, developed by the Board of Directors, which will insure that there is enough money for the major repair or replacement of the common elements and assets of the Corporation.
- This plan, once adopted must be communicated to the owners. This is done utilizing the “Plan for Future Funding” Form

3rd Key Component of the Reserve Fund

- The Reserve Fund Account – The reserve fund is an asset of the Corporation and the Board is in essence a Trustee. Therefore the money must be in a separate account and invested in approved investments that protect principal and insure liquidity.
- All investments need to be insured by the CDIC (up to a value of \$100K)
- Most popular investments are high interest savings accounts, GIC's and Bonds

Investing the Reserve Fund

- Any Corporation with meaningful assets should not be managing investments themselves.
- Investments should be diversified, laddered and invested regularly (dollar cost averaging).
- Corporations should meet at least annually (quarterly) with their investment specialist to review their portfolio.
- Increases in returns on investments are the single largest contributor to reducing owners contributions.
- Not achieving interest rates higher than inflation will erode the value of the fund.
- 85% of Corporations which we service are not maximizing their investment potential.

Component Costing and Lifespan Assumptions

- Component Quality
- Preventive Maintenance
- Use
- What parts are being replaced?
- Like for Like Replacement vs. Industry norms
- Demographics
- The repair or replacement cost must be greater than \$500

Board Responsibility

- The Board must commission a Reserve Fund Study (update) every three years. Every other study must include a site inspection
- The Board must review that study within 120 days and develop a reserve fund plan outlined in the past slides.
- A Plan for Future Funding must be sent to the owners within 15 days of approval.
- Concurrently, a copy of the study, the notice and a copy of the proposed plan is to be sent to the auditor.

Thank You for joining us



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