RI
input
SPRING 2014 VOL. 42 NUMBER 2

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From the EO's Desk

The provincial government has recently mandated depreciation reports for stratified properties. Many new homeowners in BC are moving into strata-titled properties, which are becoming an ever more popular housing choice. What spurred the government to make this change to the legislation? Read the answer in the article by Greg Steves and Doug Page from the Housing Policy Branch.

The topic of depreciation reports (also called reserve fund studies) has sparked many questions: What is the benefit? Who should do them? What should strata councils and homeowners look for in such reports? Do lenders require them? These and other questions are asked and answered in this issue of *Input*, which is one of the largest that REIBC has undertaken in its 54-year history. We received a lot of interest from authors eager to write on this topic! Our thanks to all of the authors for their insightful and informative articles.

Are you coming to the AGM and Recognition Dinner being held on June 12, 2014? How about the 21st Annual Charity Golf Tournament on June 25? Or the Vancouver Canadians ball game on July 11? Check out our website for more information and registration for these upcoming events.

Have a great summer, everyone!

Brenda Southam, CAE
Executive Officer

Cover: Sauder School of Business. Photo by Nick Lehoux, courtesy of Acton Ostry Architects.

Drop us a line!

We want to hear from you. Please let us know your ideas for articles and how you like the magazine—and check out our LinkedIn, Facebook, and Twitter pages for up-to-the-minute information on REIBC activities.

www.reibc.org
info@reibc.org

At the 2013 Annual Charity Golf Tournament for Make-A-Wish Foundation.

President's Message

Welcome to another edition of *Input*. In our tradition of being timely and topical, this issue is centred on depreciation reports. New legislation in BC requires depreciation reports for strata buildings, intended to help owners and purchasers be fully informed of the condition of the building and components and help strata corporations plan for required repairs.

As an owner of a strata unit, I am particularly interested in how this will help my building plan for necessary repairs. So often strata corporations are uninformed as to the building's needs, and they work in a reactive rather than a proactive manner. Depreciation reports will provide useful information to help the volunteer council members and their property managers protect the owners' collective investment.

It will also be interesting to see how the market reacts to this new information source. The condition of the building is an important factor for purchasers when they are looking to acquire a strata unit. Will outstanding capital works have a greater effect on pricing now that those needs are written in black and white? Will proactive councils be rewarded in the market for maintaining their buildings' internal systems? Some purchasers may have looked to aesthetics as a proxy for building maintenance levels, but now that purchasers have a more objective source of information, will aesthetics maintain their primacy in decision making?

In this issue we will hear different thoughts on this new requirement and the potential impacts on various stakeholders. I hope you enjoy the articles and that they provide you with valuable information for your practice. You can debate the topic with your fellow RIs at one of our many upcoming events.

This is my last President's Message for *Input*, as my tenure expires at the end of June. I would like to thank my Board for their professionalism and competence, and thank the REIBC staff for making my work so easy. It has been truly a pleasure serving the members across BC.

Mandy Hansen, RI
President

RI Your assurance of real estate excellence

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Amanda Mitchell (flickrCC/iheartcities)

Depreciation Reports Protect Consumers

The strata corporation is a widely used real estate development model in BC. Stratas include commercial, industrial, mixed-use, and residential forms. Residential stratas are a very popular housing choice, representing about 25% of BC's housing market (around half a million units) and more than 50% of new housing construction. Strata corporations are responsible for managing common property and assets, often worth millions of dollars. Strata owners must collectively make decisions affecting the upkeep and maintenance of their investments and common property.

THE NEED FOR DEPRECIATION REPORTS

Depreciation reports offer good consumer protection. They help stratas to maintain and repair their common property and assets by providing information on what components the strata is responsible for maintaining, repairing, and replacing over a 30-year period and what it will cost. Depreciation reports also provide useful information to prospective purchasers and mortgage and insurance providers. Reserve fund studies (called depreciation reports in BC) have been a standard requirement in other jurisdictions for many years.

In BC, depreciation reports were voluntary under the *Strata Property Act* of 2001. In practice they were seldom done. As a result, sometimes strata owners were surprised with costly

Greg Steves, RI

Executive Director, Housing Policy Branch, Office of Housing and Construction Standards

As Executive Director of the Housing Policy Branch, Greg Steves leads a diverse group of professionals on issues ranging from homelessness to affordable and rental housing policy. Under Greg's guidance, the Branch is responsible for the provincial housing strategy, Housing Matters BC, and administering the *Strata Property Act*.

Prior to becoming Executive Director, Greg was Director of Strategic Real Estate Partnerships for Shared Services BC, and Manager of Social Housing Policy for the Office of Housing and Construction Standards. Greg has a graduate degree in City Planning from the University of Manitoba.

repairs to the strata corporation's common property and assets. Paying unexpected large special levies has been a significant financial challenge for some owners, particularly recent first-time buyers and seniors on fixed incomes.

NEW REQUIREMENTS FOR DEPRECIATION REPORTS

In October 2009, the Province amended the *Strata Property Act* to require strata corporations to obtain depreciation reports or waive the requirement with a three-quarter vote. The other requirements for depreciation reports would be developed by regulation.

Knowing that this was an important issue to the strata community, the Office of Housing and Construction Standards committed to developing the regulations through consultation. Over the summer of 2010, the Province held interviews and focus groups with strata experts. These interviews brought together strata lawyers, owners, strata associations, strata managers, and other professionals to explore the regulatory needs. In 2011, a province-wide public survey received extensive promotion by the strata community and excellent participation.

What we heard from the consultation was that strata lot owners wanted information to understand who is responsible for repairs and maintenance and the projected costs. Owners said they wanted flexibility in funding future repair and maintenance costs. Owners and buyers also wanted stronger transparency and disclosure in the report. Other stakeholders wanted support for a competitive market for depreciation reports across the province.

DEPRECIATION REPORT REGULATIONS

The feedback was incorporated into the regulations, which were passed December 14, 2011. Strata corporations had until December 14, 2013 (a two-year transition period) to obtain depreciation reports. The new regulation requires subsequent depreciation reports every three years. Strata corporations can

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waive the requirement with a three-quarter vote, allowing them more flexibility to govern their strata.

Strata corporations with less than five units are not required to obtain depreciation reports. However, bare land strata corporations are required to obtain depreciation reports since many bare land stratas have significant common property such as roads, lighting, utilities, and other infrastructure.

Stratas are now allowed to make contributions to the contingency reserve fund—above the minimum required—by majority vote, as part of the budget approval process; no longer is there a "ceiling." Previously, any contributions to the contingency reserve fund above 100% of the operating budget had to be approved by an annual three-quarter vote of the owners. But this made it difficult for stratas to save adequately. It also left a misleading impression that contingency reserve funds were fully funded when they were equal to 100% of the operating fund. With this change, stratas can save more easily for future repairs and maintenance.

The regulations have set out various requirements for depreciation reports, including the physical component inventory, financial forecasting, and requirements to enhance transparency and disclosure. The regulations also require

Doug Page, RI

Manager, Housing Policy Branch, Office of Housing and Construction Standards

BC's strata legislation and regulations are one of Doug Page's main responsibilities in his role as Manager of Housing Policy. He has worked for 25 years in various aspects of the housing field, including stints with the Urban Institute in Washington, DC, the US Department of Housing and Urban Development, BC's Treasury Board (staff), and with a large private developer and manager of apartment buildings. Doug has a BA from Dartmouth College and an MA in Urban Geography and Diploma in Urban Land Economics from the University of British Columbia. He is a proud former condo owner.

> Stratas are now allowed to make contributions to the contingency reserve fund—above the minimum required—by majority vote, as part of the budget approval process; no longer is there a “ceiling.” ...With this change, stratas can save more easily for future repairs and maintenance.

that the person preparing the report have the knowledge and expertise to understand the scope and complexity of the strata corporation’s common property and common assets.

Strata developments vary widely. Residential strata can include duplexes, townhouses, apartment-style condos, single-family homes in bare land “strata subdivisions,” vacation property, and mixed-use properties. In BC, as in Alberta, the regulations do not designate which professions can prepare depreciation reports. The knowledge and expertise required to prepare a depreciation report for a six-plex are considerably different than, for example, those required to prepare a depreciation report for a highrise residential condo tower with its own power generating plant, elevator, and underground parkade.

Strata corporations have the responsibility to hire the services and expertise they need to obtain a depreciation report—just as they do with other services.

FINE TUNING

The Province continues to fine-tune the legislation to make it easier for stratas to care for and maintain their properties. For example, in spring 2012, a change clarified that new strata corporations (i.e., strata corporations formed after December 14, 2011) must obtain depreciation reports no later than six months after their second annual general meeting. In February 2014, the Province introduced two additional amendments related to depreciation reports in the Legislature. These will make it easier for strata corporations to pay for depreciation reports and repairs and maintenance. The first amendment allows strata corporations to pay for depreciation reports from the operating fund as well as the contingency reserve fund, which makes it clear that depreciation reports can be paid as an operating expense. The second amendment allows strata corporations to approve expenditures from the contingency reserve fund by majority vote for repairs and maintenance authorized by the depreciation report.

Calendar of REIBC Events

JUNE 12, 2014 | **ANNUAL GENERAL MEETING**

All members are welcome to join us at the Annual General Meeting. Voting privileges are for Professional members only.

Terminal City Club, Vancouver, BC 5:00 pm

JUNE 12, 2014 | **RECOGNITION DINNER**

Who will receive the 2014 Award of Excellence? Dinner, awards ceremony, and entertainment make this a great evening filled with fun and laughter.

Terminal City Club, Vancouver, BC 6:00 pm

JUNE 25, 2014 | **21st ANNUAL CHARITY GOLF TOURNAMENT**

REIBC's annual tournament in support of the Make-A-Wish Foundation of British Columbia and Yukon.
For more information: reibc.org/golf

Northview Golf and Country Club, Surrey, BC

JULY 11, 2014 | **TAKE ME OUT TO THE BALL GAME**

The Vancouver Canadians are playing the Everett AquaSox (Seattle) at Nat Bailey Stadium on July 11. "Pitch" the suit and tie, put on a baseball cap and some jeans, and join REIBC in a fun evening of networking, sport, and a BBQ picnic in the park! Register today and feel free to bring family and friends! Registration must close by June 26, 2014, and there will be no extension (ball park rules).

Nat Bailey Stadium, Vancouver, BC BBQ 6:00 pm, Game 7:00 pm

SEPTEMBER 30 – OCTOBER 3, 2014 | **REIBC TOURS VANCOUVER ISLAND**

REIBC will be visiting Courtenay (Sept. 30), Parksville (Oct. 1), Duncan (Oct. 2), and Victoria (Oct. 3). Join us to hear from some great guest speakers about development in these regions.

Various venues

DECEMBER 4, 2014 | **PRESIDENT'S LUNCHEON**

Speaker to be announced.

Four Seasons Hotel, Vancouver, BC

QUESTIONS?

For more information visit **www.reibc.org**

Q: *What are the obligations of a strata council to obtain a depreciation report and what should the depreciation report contain?*

A: A depreciation report is a legislated planning requirement for strata corporations in British Columbia and is used to establish long-term planning for common property and common assets. As of December 14, 2013, all non-exempted BC strata corporations must obtain a depreciation report and the report must be updated every three years.

Not all strata corporations are required to obtain depreciation reports. Strata corporations with fewer than five strata lots are exempt from the requirement to obtain a depreciation report, and strata corporations with five or more strata lots can release themselves from the obligation to obtain with a resolution adopted by three-quarter vote at the annual general meeting or at a special general meeting. The resolution must be readopted every eighteen months by a three-quarter vote.

Pursuant to section 6.2 of the *Strata Property Regulation* (BC Regulation 43/2000), depreciation reports must contain:

- physical inventory of commonly owned assets
- evaluation of the physical condition of the assets based on an on-site visual inspection
- all repair, renewal, and maintenance costs anticipated for each asset for a 30-year planning horizon
- list of common property and limited common property that the strata lot owner, and not the strata corporation, is responsible to maintain and repair
- factors used to calculate costs (e.g., inflation, taxes, interest rates)
- current balance of the contingency reserve fund with a minimum of three cash-flow funding models

Obtaining a depreciation report will keep the strata corporation in compliance with the terms of the *Strata Property Act* and be in accordance with the duties of the strata council. In addition, a depreciation report will assist the strata lot owners by providing a plan for the establishment and maintenance of adequate funding for current and future repairs and replacements, allow for the distribution of the proportionate share of component costs to each owner regardless of the period of ownership, and reduce the risk of the need for future special assessments.

A depreciation report will also assist in prolonging the life of building components through planned maintenance, improve the condition and maintenance of building components (which

John A. McLachlan, BA, LLB, RI

Lex Pacifica Law Corporation

John McLachlan is a lawyer at Lex Pacifica Law Corporation in Vancouver, British Columbia. His practice is focused on civil litigation with an emphasis on real property matters. John has appeared as counsel before the British Columbia Court of Appeal, the Supreme Court of British Columbia, the Provincial Court of British Columbia, the Federal Court, and various Administrative Tribunals, including the Employment Standards Tribunal, the Property Assessment Appeal Board, the BC Human Rights Tribunal, and the Workers' Compensation Appeal Board.

John represents and advises clients in a variety of areas, including labour and employment, real property assessment, real estate litigation, construction litigation, and commercial disputes.


istock/Bowdenimages

The impact of a depreciation report on a strata corporation and strata owners is that the content and thoroughness of the report may affect the value and marketability of the strata lots in the building and may become part of the lending criteria required by financial institutions.

will assist in sustaining resale values and reduce overall long-term repair and replacement costs), facilitate sales and financing by strata lot owners, and improve disclosure of the condition of common property and reduce the number of financial surprises for buyers of strata properties.

On the downside, it may be costly to obtain a depreciation report. It could be difficult for a strata council to complete the required depreciation report on its own as they would have to meet the qualifications required under the *Strata Property Regulation*. In addition, there may be a significant requirement for strata council resources to assemble the requisite information for the preparation of the depreciation report. In preparing for the report the strata corporation will, at a minimum, have to provide a copy of the registered strata plan, any registered bylaw amendments, and any information relating to the condition of the property. Additional documents that will likely need to be provided include:

- operating budget
- current balance sheet, including the contingency reserve fund balance and any investments and assets
- general ledger
- copies of invoices relevant to operations and repairs
- current insurance certificate or insurance appraisal
- any reciprocal easements, service agreements, and air parcel agreements
- any licences or leases (e.g., enterphone system, parking garage use)
- any agreements granting third-party use and access to the strata property
- plans and drawings (architectural, structural, mechanical, electrical, fire protection, and other systems)
- any prior investigation reports
- any bylaws where the strata corporation has taken responsibility for the maintenance and repair of part of the strata lot
- any information and bylaws relating to sections within the strata property
- any registered allocations of limited common property
- any alteration agreements where an owner has taken responsibility for the costs and maintenance of any common areas
- the status of any lawsuits or arbitrations

The *Strata Property Regulation* stipulates that a qualified person must prepare a depreciation report. A "qualified person" is defined in the *Regulation* as 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 the strata lot or limited common property that the strata corporation is responsible to maintain or repair under the *Strata Property Act* and who is able to prepare a report that complies with the regulation.

Given the need to analyze many different aspects of the strata corporation's assets it is likely that more than one person will be involved in preparing a depreciation report. Strata councils should carefully review the qualifications of the individuals who are retained to prepare a depreciation report to ensure that they have the expertise necessary.

The impact of a depreciation report on a strata corporation and strata owners is that the content and thoroughness of the report may affect the value and marketability of the strata lots in the building and may become part of the lending criteria required by financial institutions. A strata corporation's most recent depreciation report must be attached to any Information Certificate (e.g., Form B) provided by that strata corporation. Further, strata corporations may face liability issues if they fail to attach a current depreciation report to an Information Certificate provided to a purchaser or a mortgagee.

David Podmore, RI

Chairman and CEO,
Concert Properties

David Podmore believes that when we benefit from the support of others we have the responsibility to offer our support in turn. As a baby, David was hospitalized for several months. He's here now because of the care he received, and he recognizes that he's in a position to help.

David has recently returned as Chair of the BC Children's Hospital Foundation, a post he first held from 2004 to 2007, to oversee the foundation's $200 million investment in the construction of the new BC Children's Hospital and the related Child Heath BC initiative. David and his family donate to these projects, and Concert Properties provides support by contributing staff time and resources.

Concert is also involved with the BC Professional Fire Fighters' Burn Fund Building project in Vancouver, donating $750,000 in services. The building will be a community amenity, providing accommodation for patients and families at Vancouver General Hospital and BC Children's Hospital as well as meeting space for the Adult Burn Survivor program. David describes this project as a way for Concert staff to be involved in the culture of giving back.

"It's respectful that you offer support to people who have helped you," David says. His advice to others who want to contribute to their communities? "Find a specific focus for your philanthropy. It creates more impact."

Do you know some RI members who should be recognized for the good work they do giving back to the community? Please tell us about them!
Contact us: info@reibc.org

Russell McNeill (flickrCC/Stoic Meditation)

Depreciation Reports **Benefit** Strata Properties

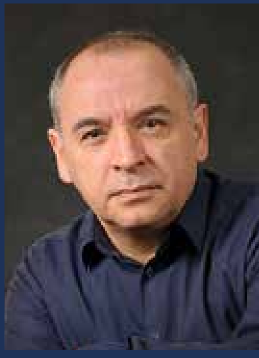
Since the mid 1960s, strata-titled property has been growing as the preferred type of property ownership for residents and investors in British Columbia. The collective ownership of assets, facilities, and recreational conveniences that characterizes stratified properties allows a large portion of the population access to home ownership and property ownership.

The type of property that can be strata titled in BC has taken on many variations. Everything from a conventional apartment-style building or duplex to a commercial property, industrial property, marina, storage facility, parking lot, or even a community-planned development with country club, golf course and riding stables has the potential be strata titled.

With collective ownership comes collective obligation. Maintenance, repairs and renewals, management, and administration are all performed and directed by the strata

Tony Gioventu

Executive Director, The Condominium Home Owners' Association of BC



Tony has 30 years of experience in management, real estate development, construction, building operations, governance, and strata property legislation. In addition to acting as the editor of the CHOA Journal, Tony is the weekly Condo Smarts columnist for the *Province*, *Times Colonist*, the *Daily Courier*, and *Vancouver 24hrs*, and is also the co-host of AM 650's *Talk About Strata* show. He has served as a director or committee member for the Homeowner Protection Office, BC Building Envelope Council, Canadian Standards Association, and the Real Estate Council of BC, and he continues to play an active role in research and development of building standards, legislation for strata corporations, and consumer protection. Since 2002, Tony has written over 600 columns and information bulletins that are exclusively dedicated to strata living.

How the strata corporation is going to pay for the future costs is probably the topic of greatest interest for the owners, investors, and buyers. If a strata corporation has not been planning for future replacement of major components, it likely does not have sufficient funds reserved, so the owners will be facing either increased strata fees or special levies when the projects come due.

corporation, who are represented by a group of owners who volunteer as the strata council. One of the most attractive benefits of strata living is the ability to own (albeit collectively) so much more, at a lower ownership cost. Similarly, if unregulated, the same culture results in the expectation of lower operating costs. Through the rebuilding and renewals of thousands of properties in the leaky condo period, many strata corporations were not only unable to anticipate the overwhelming costs of the repairs, but it became evident early on that strata corporations were simply not planning for the future: contingency reserves were underfunded. The lack of requirement for a long-term plan, the desire to maintain low strata fees, and legislation that restricted operating fund contributions without a three-quarter vote resulted in most strata corporations barely having enough in their reserve funds to meet a single emergency.

INTRODUCING DEPRECIATION REPORTS

In 2005, CHOA conducted a province-wide survey of 2,000 strata corporations to assess the financial position of each of the properties along with their current building condition and projected financial needs. The results indicated that over 97% of strata corporations would be facing a major special levy within 10 years to address common renewals such as roofing, decks and balconies, and plumbing systems. In addition, 95% of the surveyed strata corporations were demanding some level of mandatory funding or planning for future renewals be adopted into the legislation. Working with the Housing Policy Branch and the Minister of Finance, and subsequently with the Minister of Housing, the process of consultation ran over a five-year period. The result was the 2011 amendment to the *Strata Property Act* that would later implement the requirement for all non-exempted strata corporations to complete a deprecation report.

WHAT MAKES THEM USEFUL?

The depreciation report is used to establish long-term planning for common property and common assets, adding to the list of records, plans, schedules of servicing, and agreements that already contribute significantly to the decision-making process for strata corporations and managers.

Responsibility

The depreciation report determines what assets the strata corporation owns and is responsible for with respect to maintenance, repairs, and renewals. Mixed-use properties often have complicated property use and allocation entitlements. Establishing the inventory of common property and assets for many projects requires a significant amount of time and labour. There is also a requirement for the strata corporation to understand the implications of bylaws on the allocation of responsibility. In many circumstances this has required legal advice to unscramble the complicated relationships between different users and separate property owners.

Condition

The asset condition is a required component of a depreciation report, establishing the general current condition of the identified physical property. This requires on-site inspections, but not destructive testing or detailed analysis. The report must also estimate the renewal or major maintenance period. This only provides the strata corporation with a target date for renewals. Strata corporations will need to start looking at these targeted renewals a few years before the date. They will want to employ a consultant to perform a detailed investigation of the proposed renewal (such as a roofing system) that includes the scope of work, current market cost, and schedule for the renewal period in order to ensure the strata corporation has time to plan for meetings, payment schedules for levies (if required), and construction schedules.

Future Costs

The depreciation report is required to establish the likely costs for future renewal or replacement. The legislation employs the term “estimate” frequently, as the depreciation report is simply a planning tool—not the implementation process—of those identified future renewals. Future costs will have to incorporate building condition issues, future redesign requirements, building code changes, and perhaps intended changes by the strata corporation. For example, a strata corporation may be planning to replace cedar shingles with asphalt shingles. It is important for the report to reflect the intentions of the strata council.

Adriana (flickrCC/adrimcm)

PAYING FOR IT

How the strata corporation is going to pay for the future costs is probably the topic of greatest interest for the owners, investors, and buyers. If a strata corporation has not been planning for future replacement of major components, it likely does not have sufficient funds reserved, so the owners will be facing either increased strata fees or special levies when the projects come due.

A depreciation report must provide the strata corporation with funding models. The models are only estimates for planning purposes and are subject to the actual funding decisions made by a strata corporation at its annual general meeting each year when it approves the budget. There is little value in having all the models showing full funding if the strata corporation simply ignores the models, so the models should reflect the thinking of the strata council. Funding models are built on how much money a strata corporation currently has, which includes an assessment of contingency reserve fund and operating fund balances. The accuracy of these balances is essential to ensure the planning models are accurate.

A NET BENEFIT

Depreciation reports will undoubtedly have a significant impact on how strata corporations view their annual budgets and planning and how potential buyers view the risk of future costs. Depreciation reports are even likely to impact mortgage providers and insurers as they assess the risk from high-ratio borrowers.

Strata corporations have discovered, in many cases, that by simply doubling their current contingency fund contributions of $25 a month per unit to $50 a month per unit, the increase will avert many future special levies, which are, after all, simply deferred strata fees. Recent tabled changes to the *Strata Property Act* will make it easier for strata corporations to approve the funding identified in their deprecation reports by a simple majority vote at general meetings. The removal of the funding and voting barriers for strata corporations will ultimately have a positive effect on the operation and renewal of strata properties in BC.

CHOA is a non-profit association that has been assisting strata owners since 1976. With offices in New Westminster, Victoria, and Kelowna, CHOA provides service to its 155,000 members throughout the province, promoting an understanding of strata living and the interests of strata property owners. On average, the association fields 250 calls a day from owners, strata council members, managers, and agents, as well as general inquiries, and delivers over 100 seminars annually on a variety of strata-related topics including operations and administration.

For more information, see the CHOA website: www.choa.bc.ca


Nemo's great uncle (flickrCC/Nemo's great uncle)

How to Analyze a Depreciation Report

A depreciation report involves anticipating and preparing for the major repair and replacement of a strata corporation's common property and assets. It has two integral parts: the physical analysis and the financial analysis. The report is a budget planning tool.

The financial analysis estimates the strata corporation's expected long-term expenditures to determine a recommendation for appropriate reserve fund contributions in the future. Depending on the state of the contingency reserve fund (CRF), there are different methods of raising revenue to meet the expenditures—known as the "funding plan." In BC, the legislation requires three funding plans to address alternate funding scenarios.

This article will focus on determining the strength of the contingency reserve fund, understanding financial responsibilities, and identifying some specific issues to watch for that can undermine the accuracy of the financial analysis employed in a depreciation report.

MEASURING A PROPERTY'S RESERVE FUND STRENGTH

A fully funded balance means that there are enough cash and investments in a CRF to meet spending and saving requirements. North American standards for reserve fund planning use this benchmark to calculate the expenditures. All depreciation reports should indicate this benchmark as one of the three funding scenarios.

The CRF balance grows as building components and other assets age and the financial needs of the strata corporation increase, but shrinks when projects are accomplished and the expenditures of a strata corporation decrease. The balance changes each year; it is a moving but predictable target.

The CRF balance can measure reserves, but the true measure, known as reserve adequacy, is whether the funds are adequate to meet the strata corporation's needs.

The reserve adequacy (or reserve strength) is determined in a two-step process that involves:

1. Calculating the fully funded balance of the CRF as what would be required in the bank today to cover all future obligations
2. Comparing the current year's CRF balance to the fully funded balance and expressing it as a percentage

Measuring reserve adequacy in terms of a percentage of a fully funded contingency reserve fund reflects how prepared a strata corporation is for upcoming reserve fund expenditures. While a reserve adequacy of 100% is ideal, a reserve adequacy anywhere from 70% to 130% is considered "strong" as in this range cash flow problems are rare. Properties with strong reserve adequacies are highly desirable developments.

A reserve adequacy from 35% to 70% is considered "fair" and strata corporations in this range can expect periodic special levies to meet financial obligations. The 30-year target for most strata corporations is to achieve a fair reserve adequacy.

RESERVE FUND ADEQUACY

Rating	% of Fully Funded Balance	Expectation
Strong	70–100% (or more)	special levies occur rarely
Fair	35–70%	special levies occur occasionally
Critical	0–35%	special levies occur regularly


Rikki / Julius Reque (flickrCC/ [Rikki] Julius Reque)

When a strata corporation's reserve adequacy is below 35%, it is considered "critical." In this range, strata corporations can expect borrowings, loans, or multiple special levies.

Our research indicates that the majority of strata developments in British Columbia in this first mandated cycle of depreciation reports (years 2012–2017) have a reserve adequacy from only 10% to 25% of a fully funded balance.

Given these findings, a funding plan for a fully funded balance is too onerous for most strata corporations and is usually not recommended. To achieve a fully funded balance a strata corporation would have to pay a special assessment to bring the CRF balance equal to current reserve requirements. It is usually recommended that an alternate funding plan be implemented with a gradual increase in monthly owner contributions to maximize annual interest income and minimize periodic special assessments.

Jeremy Bramwell, AACI, RI, CRP
President, Bramwell & Associates Realty Advisors

Bramwell & Associates Realty Advisors Inc. has a Commercial Valuation division and one of BC's largest dedicated Depreciation Report divisions. Jeremy Bramwell holds the Certified Reserve Planner (CRP) designation, which is the only nationally recognized designation for depreciation reports (and reserve fund studies). Jeremy is Chair of the REIC Vancouver CRP Task Force, responsible for promotion of the CRP brand, and is the author of CARSS (Commonly Accepted Reserve Study Standards). For more information, please visit *StrataReservePlanning.com* or the YouTube channel *Strata Reserve Planning*.

A funding plan for a fully funded balance is too onerous for most strata corporations and is usually not recommended. To achieve a fully funded balance a strata corporation would have to pay a special assessment to bring the CRF balance equal to current reserve requirements. It is usually recommended that an alternate funding plan be implemented with a gradual increase in monthly owner contributions to maximize annual interest income and minimize periodic special assessments.

All depreciation reports should indicate the existing reserve adequacy and provide a plan that allows the strata corporation to increase its reserve fund strength to at least a fair position over 30 years.

STRATA LOT CONTRIBUTION

Owners and potential buyers need to review whether the recommended funding plan is financially feasible for them. The best method is to determine the annual average strata lot contribution[1] in the project. Strata lot owners pay contributions, which are the annual budgeted amounts, to the CRF, as well as possible special levies or assessments. Some strata corporations use strata loan payments, but given the rarity of this item it was not included in the example (see table).

The following table provides an example of what a strata lot owner may need to budget over the next five years to maximize the condition, attractiveness, and usefulness of a property's common assets and building components. Strata owners should find this equivalent information, or calculate it themselves, to make sure that they understand the implications and financial responsibilities they will have in the future.

1 *The contribution of the average strata lot (ASL) is achieved by dividing the respective reserve fund variables by the total number of strata lots in a strata corporation.*

STRATA LOT CONTRIBUTION EXAMPLE

	2014	2015	2016	2017	2018
Annual ASL Contribution	$660	$696	$720	$732	$780
Annual ASL Possible Special Levies	$0	$0	$2500	$0	$0
Total	**$660**	**$696**	**$3220**	**$732**	**$780**

UNSUPPORTABLE ASSUMPTIONS UNDERMINE REPORTS

In BC, the new legislation that requires depreciation reports does not provide specific requirements for who can write them—so everyone is now an "expert." The following are three of what I believe are the most irresponsible things in a report that can render the document useless.

Increasing Percentage Rates

To be fair to all owners in all years, the best practice is to have a stable rate of annual increase in contributions by the strata owners, say around 5%.

Some depreciation reports have increasing rates for contributions, perhaps 3% in the first decade, 5% in the second decade, and 8% in the third decade. This method has three main problems:

1. Not only is it unfair to later owners, but it is not realistic that an owner in year 25 will approve high increases to make up for the low fees in the first decade.
2. The deficit in the CRF and on a per unit basis will increase in the period of lower increased rates, thereby lowering market values.
3. Low contributions will create high special levies when they come due, instead of minimizing them.

Construction Inflation Versus Consumer Price Index

The Consumer Price Index (CPI) relates to annual increases in the price of groceries, gas, rent, and clothes. This has been under 3% for several years. All depreciation reports are indexed for inflation, but the rate must be tied to construction costs.

The rate of construction cost inflation for steel, oil, concrete, wood, and labour has no relationship to the CPI and therefore any report using the CPI for construction inflation is irrelevant. Construction cost inflation rates should be based on the construction cost trends for building types that are similar to the subject property. This has been over 3% for most of the last decade. Anything less will underfund the budget as replacement cost savings will be shortchanged.

Grouping

Building components are differentiated by material, use, and life span. For example, in a low-rise building, there are entrance doors, patio doors, suite doors, service doors, and garage doors. Best practice recognizes that each door's purpose, expected life span, materials, and cost are different. As such, each type of door should have a line in the budget and an expense when a repair or renovation is required.

If these doors were grouped into a category called "Doors" or "Non-Window Openings," for example, it would cause two main problems. First, the doors would be given an average life span and component price, which would distort the projections of when money is to be spent and how much would be required at that time. As well, such grouping does not allow for the use of observed physical status from the inspection, instead relying on an average life span, which may or may not be supported at inspection.

RECOMMENDATIONS

Based on these issues, I have several simple recommendations for readers of depreciation reports in order to analyze them.

Look for the fully funded balance of each of the years in the funding plan (or just look at the first few years, the tenth year, and the thirtieth year) and determine the reserve adequacy. Also, calculate the average strata lot contribution to determine if financial obligations can be met, especially special levies. And last, make sure there is nothing in the report that makes the report conclusions unrealistic or unsupportable. Good luck.

Evan Leeson (flickrCC/ecstaticist)

Dispelling the Myths About Financing and Depreciation Reports

When working with mortgage financing, I find depreciation reports are related to three key mortgage concepts. These all tie together with the importance of the realtor's role in facilitating a smooth financing approval, which is often made more difficult than it needs to be because of differences in understanding, lenders frequently changing their guidelines, and the new need for hyper-diligence in making lending decisions. Dispelling the myths that persist regarding these three key concepts will assist home sellers, homebuyers, and their realtors to better navigate the financing requirements of the purchase-and-sale transaction.

PRE-APPROVALS

In a recent Mortgage Mentor survey of realtors and consumers, the common understanding of the term *pre-approval* was found to be "a document, or verbal commitment, from a lender that enables a consumer the confidence to write a purchase agreement without a subject-to-financing condition." [1]

When executives at financial institutions were asked the same question, their responses could be summarized as, "Pre-approvals and rate holds are the same thing." When I pressed the lenders further I learned that most branch personnel base their pre-approvals solely on the application information and rarely, if ever, actually confirm the borrower's income and employment information until an accepted purchase offer is in play. And why would they spend the extra time? More than two-thirds of all so-called "pre-approvals" are never used.

1 *Mortgage Mentor Inc., "Mortgage Pre-Approvals,"* Research Bulletin*, Spring 2013.*

Foreseeable home repairs and possible strata assessments can affect a homeowner's future ability to repay a mortgage. With the track record that strata properties in BC have had, lenders pull out all the stops to make sure that their files contain sufficient evidence showing due diligence.

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On a related note, a surprising percentage of mortgage broker business today is arranging last-minute financing where the client thought they were pre-approved only to find out after an offer was written that the lender couldn't actually provide the needed financing for the selected property.

APPROVAL REQUIREMENTS

Since the US mortgage debacle of 2008–2009, lenders everywhere have been showing more concern for the borrower's ability to make the payments now and in the future. In concert with that, Ottawa's Bill B20 set the table for the Office of the Superintendent of Financial Institutions (OSFI) to impose new guidelines that require lenders to take special care to confirm that the borrower can afford their housing payments. Authorities are auditing files to confirm careful underwriting, triggered especially when a homeowner's mortgage moves to a foreclosure status. Underwriters are highly aware that they need to "paper over" their underwriting practices and now more than ever make sure every required document is in the file.

I recently had some AAA-credited clients with stable high-paying careers who had a $400,000 down payment on a $1.2 million home. The financing approval took over two weeks! Why? The lender needed many supporting documents and the clients had busy lives.

Foreseeable home repairs and possible strata assessments can affect a homeowner's future ability to repay a mortgage. With the track record that strata properties in BC have had, lenders pull out all the stops to make sure that their files contain sufficient evidence showing due diligence. Even if a client's housing-cost debt ratio is within the required limits, the expense of repairs or an assessment can sometimes get included in the calculation for total debt servicing, causing an otherwise acceptable deal to be declined.

Another new consideration is this: what will be the borrower's exit strategy on their financing? In other words, at the end of the new mortgage term, will the clients be able to renew, refinance, or sell the property? Lenders are considering whether a borrower will be able to cover the extra payments should the strata property get into difficulty. And if the borrower sells, will there be enough equity for the lender to get its money back? Lenders don't want to foreclose on a property under duress.

Rick Robertson

Mortgage Broker, VERICO Network

Now in the twentieth year of his career, Rick Robertson has completed thousands of successful home purchases. Rick has received numerous awards for volume and performance and is the driving force behind Mortgage Mentor Inc., which provides broker decisioning tools and guideline advice to mortgage brokers across Canada.

Realtors and buyers alike should not rely on a so-called “pre-approval” to shorten the time for a financing subject. As well, if the property is a strata, trigger the request for a complete Strata Form B—including all newly required addenda—as early as possible after the offer is accepted.


Paul Joseph (flickrCC/sashafatcat)

APPLICATION REVIEW TIMES

The approval or underwriting process itself is not what it was five years ago (or last year, for that matter). It used to be that lenders asked for a few basic documents and ticked the boxes when they had them. It typically took only an hour or two to learn if the approval conditions were met.

Things have changed. In Canada’s conservative mortgage world, lenders are cutting expenses and have rightsized their underwriting staff, while more documents are required than ever before. Underwriters now commonly have assistants who preview documents—an extra step—and each document’s authenticity and contents are more carefully reviewed. Most lenders now have 24- to 48-hour turn-around times for each batch of new paperwork submitted. If there is a document missing, or if there is something missing (even a signature), the 24- to 48-hour review process begins all over again when the replacement document finally comes in.

Strata Form B is often the last document that is provided by the seller or realtor and, as above, it can be another 24–48 hours after receiving it for the lender to review it. If there’s anything missing from it (e.g., depreciation report) then more days can be required. Because most lenders like all support documents to be no more than 30 days old, getting one at the time of listing may be a waste of money. The optimal scenario would be for the seller or realtor to order one as soon as they have an accepted offer. The old practice of having the buyers provide their documents to a realtor who forwards them to the lender does not improve the quality or reliability of the process. Increasingly, the mortgage agent is required to receive documents directly from the source.

The best thing a realtor can do to facilitate a prompt condition removal is to strongly encourage their buyers to give their mortgage agent absolutely everything that is asked for, as quickly as possible. Contrary to popular belief, lenders are not sitting idly at their desk waiting for a client’s document to appear so that it can be approved right away. Lenders have in-boxes, they are full, and newest stuff goes to the bottom.

THE DEPRECIATION REPORT COMES INTO PLAY

I have done a survey of 23 of the most popular mortgage lenders in BC. Most at this point do not have a specific policy relating to depreciation reports. I have also asked the major insurers, and, contrary to rumours and un-researched real estate reports, they, too, have no specific requirements regarding depreciation reports.

However, lenders and insurers *do* have general document policies that would cause a depreciation report to be required as a pre-funding condition, such as when:

- a depreciation report is referred to in the contract of purchase and sale
- the strata minutes are referred to in the contract of purchase and sale and the minutes mention the existence of a depreciation report
- the property being financed is a strata property (the lender will usually require a Strata Form B, and a depreciation report is now is a required addendum to the form)

In short, if the property is strata titled, it's highly likely the lender is going to need the depreciation report.

RECOMMENDATIONS

Realtors and buyers alike should not rely on a so-called "pre-approval" to shorten the time for a financing subject. As well, if the property is a strata, trigger the request for a complete Strata Form B—including all newly required addenda—as early as possible after the offer is accepted.

Realtors should start informing sellers of the above facts and that longer times are required for loan approval even for those that think they have been pre-approved. Five to seven calendar days for financing subject removal is simply very tight in today's policy-driven mortgage marketplace.

Financial institutions have money to lend and they want it out in the marketplace earning interest. They want to approve the deal but need the time to do it according to the new, tighter OSFI requirements. Let's give homebuyers the time they deserve to get their financing in place without unnecessary stress.

CHAPTER REPORT: CARIBOO

Cariboo Mountains as seen from Mt. Agnes.

Greetings from the Central Interior! With the obvious onset of spring, it seems an appropriate time to reflect back on the year that was within the Cariboo Chapter.

Our chapter recently held a meet-and-greet pub night in Prince George. It was a joint event undertaken with the Prince George Chapter of the Appraisal Institute of Canada. While the turnout was less than expected, the attendees enjoyed spirited conversation as many topics were discussed and stories shared. David Godfrey of Godfrey Appraisals Commercial, who is also a Cariboo Chapter director, should be thanked for organizing the event. The geographic area in which the Prince George Chapter resides is very large. With members as far north as Fort St. John and as far south as Williams Lake, getting together for chapter meetings can be challenging. The benefit of joint events with AIC, such as the recent pub night, is becoming obvious. Peter Ryks of AIC is a valuable part of this relationship. Thank you, Peter.

The Northwest Chapter of REIBC suffers similar challenges when it comes to organizing events. The smallish member base coupled with travel requirements to attend these events has kept attendance on the low side. Tracy Love is a director of the Northwest Chapter and she is dedicated to the Institute. Thank you for your efforts, Tracy.

Our chapter has had consistent representation at the Board of Governors over the past few years. This is about to change, however, as I am relocating to the Lower Mainland and stepping down from the position of Governor for the Cariboo/Northwest region. John Phillips, Real Estate Manager for the Roman Catholic Diocese of Prince George, will fill the last year of my term.

On a personal note, I would like to thank RI members one and all for their support over the past few years. I have enjoyed my time as Governor and will continue to be involved with the Institute once I am in my new home. It has been my pleasure to be of service.

John Castle, RI, AACI, P.App

Cariboo/Northwest Governor

John Castle started in the real estate profession by joining the Dawson Creek office of BC Assessment in November 1994. John joined the Prince George office in November 1995, where he has worked with BC Assessment ever since. He has been a member of the Real Estate Institute of BC since June 1998, serving as Chair of the Cariboo Chapter from 2006 to 2011, and becoming Governor of the Cariboo, Northwest, and Prince Rupert District in 2011.

John has enjoyed living in the Central Interior area of the province. He enjoys all sports in general and golf and curling in particular. He is married with two grown daughters.

Sauder School of Business, UBC Campus, Vancouver.

UBC's **New** Reserve Fund Planning Program

The Real Estate Division at the Sauder School of Business at UBC has recently developed a new program to address the learning needs of real estate practitioners who wish to complete depreciation reports. The Reserve Fund Planning Program (RFPP) is a nationally developed program designed to provide real estate practitioners with the necessary expertise to complete a diversity of reserve fund studies and depreciation reports.

The requirement for depreciation reports is relatively new to the strata property landscape in British Columbia, although they have been required in some Canadian provinces for over a decade. While there are some legislative differences between provinces related to the regulations governing depreciation reports, the reports themselves follow the same basic outline regardless of the province in which they are completed. This national similarity in practice has allowed a program developed in British Columbia to address the learning needs of practitioners across Canada.

THE PROGRAM

The program covers a variety of property types from different Canadian provinces, offering both depth and breadth in understanding how reserve fund studies are prepared for strata and other properties. That it be applicable to a national audience was the primary motivation to use authors from across the country to develop the program—a process that has taken over two years. The result is a program that not only addresses the learning needs of students in all provinces, but also provides each student with a broad scope of practice since properties from across the country are used in the program's examples and case studies.

One of the program authors, Allan Beatty, AACI, explains this approach:

> *The UBC course incorporates the actual experiences of practitioners in this specialized area of practice. It demonstrates that there are different ways to approach some of the questions that arise in everyday practice. What is common to all practitioners, despite differences in legislation, is the overall objective to provide sound advice to strata councils so they can confidently map out their future obligations and prepare a plan to meet them.*

The RFPP is a continuing professional development program designed for real estate professionals interested in expanding their area of practice. Typical program applicants already have designations from the Real Estate Institute of British Columbia (the RI designation), the Appraisal Institute of Canada (CRA or AACI), or other real estate organizations. Applicants must meet the core program prerequisites, which include knowledge of real property law, construction and inspection, valuation, and real estate finance. Those who do not already meet all of these prerequisites can complete newly developed continuing professional development (CPD) short courses, which allow applicants to quickly gain the knowledge to meet the entry

Michael Elkan, courtesy of Acton Ostry Architects

Acton Ostry Architects

Above: Interior, Sauder School of Business, featuring installation honouring William L. Sauder. Below: Sauder classroom.

André Gravelle, B.Comm, MA, RI

Director, Diploma and Certificate Programs, Real Estate Division, Sauder School of Business

André Gravelle has been active as an instructor and real estate educator for many years. He has expertise in developing and delivering university programs in real estate as well as practice-specific continuing professional development courses for the real estate industry. André is a past president of REIBC.

requirements of the RFPP. As UBC Associate Director John Bridal explains, "Our typical student is a busy real estate practitioner looking for immediate access to new expertise. Time is precious for these people." These short courses follow a model familiar to the Sauder Real Estate Division's 40 other CPD course offerings.

The Reserve Fund Planning Program consists of two non-credit, open-enrolment, self-paced courses, each of which is completed within a 12-month time frame. The courses are delivered by distance education and are accompanied by a printed workbook and a web page containing learning resources such as photo slideshows, videos, and webinars presented by reserve planning experts.

The benefits of online education are well known and are particularly relevant in country-wide education programs—students do not need to travel to attend classes and can complete the course requirements on a schedule that complements their work schedule and personal life.

THE COURSES

The first course in the program is Fundamentals of Reserve Fund Planning (CPD 891). Introductory lessons outline the steps involved in completing a depreciation report as well as the key considerations encountered by those engaged in preparing the reports. Each of the key steps in reserve fund planning are detailed.

The second course, Reserve Fund Planning Guided Case Study (CPD 899), builds on CPD 891's foundation, guiding students through the process of completing an actual depreciation report on a property of their choosing. The guided case study approach has been used successfully in other Real Estate Division program offerings and will be well known to those who have completed Appraisal Institute of Canada designation courses through the Real Estate Division. The goal of CPD 899 is to give students enough practical experience in completing depreciation reports that they will be confident in completing such reports for clients.

CPD 891 was launched in December 2013 and the material is already in its second printing. CPD 899 will have been launched by the time this article is in print and will be available for those students who have already completed CPD 891.

CAREER NOTES: NETWORKING

As a student in my final year of the BCIT Professional Real Estate Program, I attempt to seize every opportunity to expand my network and build career opportunities, and so do my classmates. We believe that the key to grasping opportunity in the real estate industry is to meet as many professionals as possible and gain hands-on learning experience outside of the classroom.

Meet the Pros event at BCIT.

As President of the BCIT Real Estate Association, the first phone call I made when the school year started was to the Real Estate Institute of British Columbia. Their mission to help students transfer from the classroom to the real estate industry has proven successful for BCIT students.

Being in the classroom five days a week is necessary to learn the foundations of real estate. We learn everything from how to draft a flawless contract of purchase and sale to how to analyze and value a specific real estate market. However, we sit at our desks itching to apply these skills in the real world. Upon graduation, our working lives will involve meeting new people in the industry on a daily basis. Our acquired knowledge will be relatively useless without the ability to network and find opportunities where we can apply it. We need to learn the foundations of networking somehow and somewhere, and it is REIBC that has generously and enthusiastically given us the opportunities we need to learn these skills.

I sat down with Executive Officer Brenda Southam in September 2013 with the hopes of building a relationship between the BCIT Real Estate Association and REIBC. I told Brenda that I wanted to meet as many professionals as possible and hand out every single business card in my pocket. Without hesitation, REIBC organized two networking events for us called Meet the Professionals. The first event, in October 2013, was oriented to residential real estate. It was many of our students' first opportunity to network in a professional real estate environment. The event opened everyone's eyes to the importance of networking, and at the end of the night I could see the inspiration and eagerness in the eyes of our members to enter the real estate industry. REIBC then hosted a second night, in February 2014, this time oriented to commercial real estate. We were able to draw from the knowledge that we had acquired at BCIT to engage in meaningful conversation, demonstrating our potential in the industry. We shared the unanimous feeling that our networking skills were improving by the minute, and when the night ended we were still hungry for more. These events motivated all of us to continue to build lasting relationships within the real estate industry and gave us the confidence and skills to do so.

On behalf of the BCIT Real Estate Association, I would like to thank the REIBC for generously providing us with opportunities to practice networking, not only by hosting events for us but also by inviting us to other industry events. REIBC's involvement with our association has given our members the additional skills we need to become successful young real estate professionals.

Sean Bagan

President, BCIT Real Estate Association

Sean Bagan grew up on the west side of Vancouver and has had an interest in real estate since he was young. His passion for the industry grew from watching his father's work ethic and love for real estate. Sean was elected as the president of the BCIT Real Estate Association after his first year in the BCIT Real Estate Program. He is excited to graduate from BCIT this spring and make a name for himself in the real estate world. Sean has worked for Colliers International for three years in Industrial Marketing Intelligence, with the hopes of one day becoming an industrial broker.

Who Should **You** Hire?

We asked professionals in three different land-based professions what makes, from each of their perspectives, for a qualified depreciation planner. With the range of professions potentially qualified and able to complete depreciation reports, appraisers, engineers, and CRPs represent only a few of the choices open to those in need of hiring such services.

CONTRIBUTORS

Charlotte Ciok

Rudy Wouts

Scott Fischer

Why Hire a Qualified Appraiser?

The depreciation report is now mandatory in BC for non-exempted strata corporations. The report is a financial document or long-range financial planning (budgeting) tool that identifies the current status of a strata corporation's common building elements and capital reserves. The report provides a funding plan to offset the anticipated future major repairs and the replacement of common elements and assets of the corporation.

Considering the importance of depreciation reports to the long-term financial health of strata corporations and the increasing liability associated with the fiduciary duties of strata corporations, strata managers or board members, and property managers, it is critical to have depreciation reports prepared by qualified professionals. So one of the major questions that arise for many strata corporation boards is: Who is qualified to provide a third-party, unbiased, detailed report?

The *Strata Property Regulation* loosely provides a definition of a *qualified person* as:

> *...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).*[1]

1 Strata Property Regulation *(BC Regulation 43/2000), Section 6.2(6).*

istock/JimmyFam

This has resulted in a vast array of individuals and companies throughout BC—including architects, financial planners, building technologists, chartered surveyors, building inspectors, engineers, reserve fund planners, and, in one known case, a landscaper—preparing depreciation reports.

For comparison purposes, similar legislation in Ontario (*Ontario Condominium Act*) specifies a list of qualified persons: Accredited Appraisers Canadian Institute (AACI designation), Architects, Registered Engineering Technicians, Certified Reserve Fund Planners (CRP), Professional Engineers, Professional Quantity Surveyors, Architectural Technologists, or Registered Building Technologists. Clearly, BC's *Strata Property Act* does not compare favourably to other jurisdictions in Canada with similar legislation in terms of identifying specific qualification.

APPRAISERS

Today's professional real-property commercial appraisers are highly qualified and able to serve the expanding needs of the marketplace with a wide range of value-added real-property advisory and consulting services. Designated commercial appraisers inspect all types of commercial, industrial, and multi-family properties and have extensive experience in real estate financial analysis, building construction knowledge, and cost estimating. Many other professionals and organizations depend upon the knowledge and expertise of a designated commercial appraiser: bankers, mortgage lenders, investors, portfolio managers, insurers, estate managers, trustees, executors, attorneys, the courts, and municipal, provincial, and federal agencies.

Appraisers are uniquely suited to undertake depreciation reports. The report must include an on-site inspection and evaluation of the physical inventory of the commonly owned assets as well as financial forecasting. For the latter, the report must describe the anticipated maintenance, repair and replacement costs over a 30-year planning period, taking into consideration factors such as construction inflation, cost of living or consumer price index, inflation rates, and interest rates. The report must also include a description of how the contingency reserve funds are currently being funded and provide a minimum of three cash-flow funding models.

APPRAISAL APPROACH

The appraisal process incorporates various degrees and types of analysis and forecasting in the three approaches used to estimate market value for a property's depreciation report: a direct comparison approach, an income approach, and a cost approach.

The direct comparison approach examines the cost of acquiring equally desirable and valuable substitute properties and comparing the subject property on the basis of time, location size, and quality of improvements and design features.

The income approach is predicated on the basis that investors purchase income properties for the income stream they produce. This approach examines the income capability of

Charlotte Ciok, RI, BGS, FRI, CRP, AACI, P.App

President of Cascade Valuation Group

Charlotte Ciok is a Senior Valuation Consultant with over 30 years of experience in the real estate industry in British Columbia in appraisal/real estate consulting and brokerage. She has previously held executive director positions with AIC-BC and REIBC. Charlotte has completed a broad assortment of appraisal assignments covering an array of property types and projects across the province and other parts of Canada. Currently, Charlotte is President of Cascade Valuation Group, a boutique appraisal group specializing in expropriation, appraisal review, litigation and arbitration support, expert testimony, and reserve plan studies/depreciation reports. Her experience includes the valuation of income-producing office, warehouse, industrial, and retail properties, mixed-use commercial and multi-family residential developments, seniors' housing and health care facilities, and resort-type properties such as golf courses, hotels, and marinas, as well as feasibility studies on various types of development properties.

an investment as a measure of value by developing an income model, taking into consideration income, vacancy, operating expenses, and applying a market factor.

The cost approach requires an appraiser to estimate the reproduction or replacement cost of a structure and an estimate of accrued depreciation. Cost manuals or costing software are typically utilized to calculate the estimated cost of the building as if new, and then depreciation is deducted to account for loss in value over time (wear and tear). Depreciation is related to the effective age of an improvement or the remaining economic life. As a result of extensive formal training and experience, appraisers are well versed in areas of physical deterioration, functional or external obsolescence, and the fundamental concepts of economic life, actual life, and remaining economic life. This specialized skill set is easily transferable to the task of estimating costs related to the various structural, mechanical, and electrical components required within the scope of a depreciation report.

Appraisers must also be skilled in gathering and evaluating facts and must understand how to access the variety of data sources that are needed in any of the three approaches to value. Identifying construction features and materials, along with technical competence in reading survey drawings and blueprints, are utilized in many situations. Strong verbal and written communication skills are necessary for preparing clear and concise reports and for cultivating client relationships. Mathematical skills are a strong asset for both the technical aspects of inspections and the analysis of markets. Critical thinking and analytical skills are essential for individuals working in consulting and advisory capacities who must formulate opinions.

Designated commercial appraisers with a reserve fund planning background are highly qualified real estate professionals with a broad skill set. They are one of the few types of professionals preparing these reports who can address issues related to real estate markets and values. Unlike some other providers, the recommendations provided by qualified appraisers are truly at arm's length since they do not stand to realize any financial benefit from the recommendations they provide. In addition, qualified professional appraisers adhere to a high set of professional standards and conduct under the auspices of their respective professional associations.

Until legislation provides the public with a definitive list of qualified professionals, it is incumbent upon strata corporations to evaluate the level of the service provider's credentials, formal education, and expertise.

Depreciation Reports and the Qualified Engineer

Depreciation reports are the new reality in the strata world of British Columbia, thanks to changes in the *Strata Property Act*. However, who is qualified to undertake depreciation reports is not clearly laid out in the *Act*. The *Strata Property Act* states only that a qualified person must be able to meet the requirements of the depreciation report as provided for in the *Act* and regulations. Professional disciplines are not named.

How strata fees can be best handled between operating and maintenance and the reserve fund is an area of confusion. Trivial matters, these are not. High-quality, well-researched guidance must be available to owners, managers, and strata councils for them to be able to properly understand what is key to running a strata property that presents well and retains—if not grows—its value. A major investment deserves the best professional input available.

CHOOSING A PROVIDER

What is a depreciation report actually meant to do? Dealing with changes in contribution amounts to a reserve fund is one outcome of the new requirement for depreciation reports. Another is managing the common property so that the normal service life of a component can be achieved or exceeded. But what about the prediction of future work based on visual observations, and what feeds into and informs these observations? Allowances for work that will undoubtedly come due are necessary, but the actual scope and timing are difficult or impossible to predict. Training and work experience, from my perspective, make a marked difference in this process.

istock/vm

Many articles have been penned with the intention of helping strata corporations weigh and discern who could best prepare their report. How to choose a provider and what to do with the document once you have it are important questions, and I've discovered there is serious learning taking place as the rubber meets the road. If we agree that a sound depreciation report is crucial to the stewardship of the common property then who is best qualified to prepare this report? Architects, engineers, engineering technologists, building science technologists, former or active real estate agents and brokers, property appraisers with or without a certified reserve fund planner designation, and others are all cast into the net of potential providers. A closer look at qualifications may be worth exploring. Property is, after all, a major (if not the largest) investment that most people undertake.

Within the particular language framework of the *Act*, a broad basket of professional qualifications and designations appear to fall out of who is "qualified" or officially recognized to be competent or knowledgeable in the development of depreciation reports. There are as many backgrounds, courses of study, and conditions of requirement, almost, as there are those developing depreciation reports.

ENGINEERS KNOW BUILDINGS

Let's look at engineers. Engineers typically come by their training through full-time attendance at universities. Engineers are usually in a four- or five-year program before receiving their degree in engineering, which is then followed by a two-year intensive period of apprenticeship before the engineer is considered for P.Eng certification by the professional association in a given province. Each province in Canada has its own act regulating the licensing process for engineers, and annual reporting by professional members to their association ensures they stay current in their respective fields. A license must be held in each province where an individual plans to practice.

Engineers are immersed in the science of analysis, planning, design, construction, and construction management, as well as applicable legal factors and the entire tendering process. Their education provides in-depth knowledge of materials as related to a given application. Preparing drawings and reviewing component specifications for buildings are integral to their training.

A cursory review of training and experience of a building science background as practiced by engineers compared with a market-oriented appraisal background suggests that the former is technical while the latter is market based. The market valuation of a project, its land, and building features are important for insurance purposes and for developing market analysis and comparatives for buyers, investors, and sellers of real estate. This type of training and background is useful for the depreciation report process, though it could be considered soft in the area of building component design, component removal and replacement, functionality, performance, and scheduling of work. Standardized tables are found in many

Rudy Wouts, P.Eng

Director and Principal Engineer, Clear Path Engineering

Rudy has over 40 years of experience as a professional engineer in the consulting industry. He is actively involved in educational programs at Mount Royal University and in condominium owner and manager organizations in British Columbia and Alberta. Projects and assignments have included building infrastructure and assessment, reserve fund and depreciation reports, facility evaluations for government facilities, transportation projects, and surface water management. His experience has encompassed planning, design, construction, and construction management for projects from a few thousand dollars to multi-million dollar projects abroad. Currently a director and principal for Clear Path, Rudy leads the growth and management of this dynamic consulting firm embracing the condominium and strata housing forms in Western Canada.

appraisal-type depreciation reports, and the term depreciation analysis is often included in such reports to indicate whether an element has been reported or not under major component descriptions. This term has an entirely different meaning for engineers. From our perspective a *depreciation analysis* would constitute an investigative report of considerable depth.

Funding models and financial analysis are central aspects of developing a depreciation report. It is also very important to be cognizant of what drives the numbers. Professionals in the area of building science bring to the process of creating a depreciation report a set of particularly trained eyes. The knowledge an engineer has about how components are assembled, how long they typically last, and what surface observations reveal, together with a grounded understanding of the removal and replacement costs and processes for common building components, is a cornerstone of developing funding requirements and replacement schedules.

So where does all this leave the property manager and strata council members in choosing a professional to complete the depreciation report? Based on my engineering work experience—on building structures, surface drainage issues, building envelope issues, underground utilities—I am biased. I say look at the value you attach to a depreciation report and you will find a provider in line with your values.

I believe that if we discuss our questions, the buildings, and the depreciation reports that we and others produce, we can then strive to make them always better. We ought not to stop learning but instead be open to widening our net of knowledge and questions.

What Makes a Certified Reserve Planner the Obvious Choice?

When you contemplate strata legislation across Canada, most provinces require that depreciation reports be performed as part of sound strata management. Some provinces even set a minimum standard as to designated professionals allowed to perform reserve fund studies in an effort to provide guidance to those responsible for hiring a reserve fund study or depreciation report planner. However, a minimum standard leaves many other questions about whom you should hire as your planner. One of these questions is certainly the level of education a planner has that is directly related to the preparation of a depreciation report.

But to consider a planner's relevant education, we first need to understand what a depreciation report really is—and it is many things.

The report determines the imminent or mid-term failure of components that are the responsibility of the strata corporation to maintain, and it should be detailed in a way that represents how the strata council would typically repair or replace the components. The report is also a financial planning document that utilizes a great depth of knowledge in the running of a reserve fund, some of which run into the millions of dollars. This includes ascertaining correct inflation rates, correct interest rates, and investment types that are available to the strata council. It also includes realistic budget preparation for the various projects the strata council will undertake to repair or replace the common elements and assets of the strata corporation. A depreciation report can be thought of as a long-term (30-year) capital funding plan for maintaining the strata corporation's common elements.


istock/swilmor

Undeniably, the quality and usefulness of a depreciation report received from a reserve fund planner will depend on the planner's skills and knowledge. Depending on the size and complexity of the strata property, you might place heavier weight on one particular element of the report over another. But no matter the type of property involved, the planner's ability to write a report that is useful to the reader—with relevant information that is easy to understand, and with correct assumptions and knowledge—is imperative.

CRP DESIGNATION

REIC developed the Certified Reserve Planner (CRP) designation and educational program in response to the needs of professionals across Canada to focus their skills to be directly applicable to depreciation reports and reserve fund studies and to develop skills they may be missing. The CRP designation recognizes highly skilled individuals with specific education in the preparation and presentation of reserve fund studies.

If you hire someone with the CRP designation, you not only get the benefit of an accredited professional completing your depreciation report, you also have a professional that has made a commitment to be educated specifically in the development and delivery of a depreciation report that exceeds the requirements of the *Strata Property Act*.

REIC is an educational institute that has a broad range of designations related to condominium sales, leasing, property management, development, and finance. All REIC members have designations; there are no industry-affiliated or contractor members. The cornerstone of the REIC is a strong focus on ethics and ethical business practices.

As REIC members, Certified Reserve Planners have the opportunity to network with active professionals across the country who look at strata properties from different perspectives. Under REIC, CRPs are governed by strong ethics, and REIC monitors all CRPs annually to ensure that the appropriate level of Errors and Omissions insurance is maintained.

It is an obvious choice to require a CRP designation when selecting a professional to complete your depreciation report.

THE BENEFITS OF THE CRP PROGRAM

Required Qualifications

CRP candidates are required to hold a designation from a related profession (such as architecture, engineering, appraisal, engineering technology, or property management) and demonstrate sound knowledge of the subject material at the

Scott Fischer, CRP, RPA
First Condo Group

Scott Fischer was educated in Environmental Systems Engineering Technology in Toronto and has been involved in building operations and management for 20 years. With extensive background in capital and reserve fund planning, Scott is the leader of the team at First Condo Group Ltd. and also designs courses and teaches reserve fund planning across Canada through the Real Estate Institute of Canada (REIC). Scott has received the Certified Reserve Planning (CRP) designation in addition to the Real Property Administrator (RPA) designation through the Building Owners and Managers Association (BOMA). In 2008, REIC awarded Scott the Patrick J. Harvey national award for education excellence as recognized by his peers in the industry. Scott has served as Director for the Toronto Chapter of REIC as well the national board. He is a past chair of the Education and Events Committee for the Toronto Chapter and is currently serving the REIC National Board on the Liaison Committee and Ontario Sub-committee.

end of the required courses. Those who do not meet these requirements must continue to gain experience until they meet the necessary level of proficiency.

Relevant Course Material

The courses allow students to develop knowledge in construction and building systems, including the proper method for inspection, required documentation, proper equipment, accurate quantity takeoffs, and component life cycles. Courses teach how to apply inflation rates relevant to the construction industry, interest rates, and the effects of various investment types allowed under the *Strata Property Act*. Students develop an understanding of the key sections of legislation, their interpretation, and their effect on report preparation.

Students are given tools to develop costs for the replacement of the common elements and assets of a strata corporation. They learn to apply a lens that focuses on the most common repair or replacement method and the ways in which a strata corporation may go about replacing a component. They also learn methods to assist a strata council in understanding the current health of its reserve fund and the optimal contributions required to achieve a reserve fund that meets the obligations of the *Strata Property Act* and, equally importantly, the goals of the strata council.

Case Study

The program requires completion of a case study. This requirement is unique in that the case building is visited during class time and all subsequent courses use the subject building as the example on which to explore components requiring repair or replacement and to develop the financial model. The case study uses a template to collect students' in-class work. The resulting case study document is the culmination of everything a student has learned and applied.

Qualified Instructors

The instructors are Certified Reserve Planners with a significant amount of experience in the preparation of depreciation reports. Their knowledge is transferred to the students using real examples during instruction, situational feedback, and question-and-answer sessions. Instructors are available for feedback or advice while students are in the program and after they complete it.

BY THE NUMBERS: STRATAS IN BC

Data provided by Landcor: Rudy Nielsen, President and CEO, Jeff Tisdale, VP Client Relations, Kevin Whitlock, Project Manager

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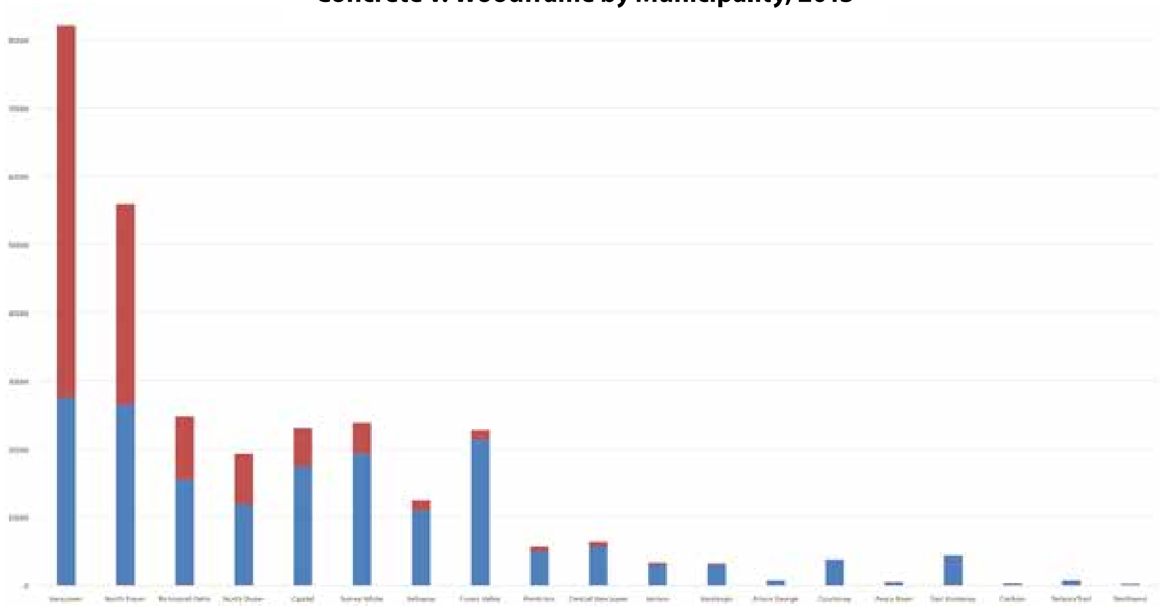
CONCRETE V. WOODFRAME

This graph compares the prevalence of woodframe to concrete construction of condominium developments in 19 municipalities in BC. The red bar signifies concrete construction and blue signifies woodframe construction. The graph illustrates that Vancouver is the only municipality where concrete highrises are more prominent than those made out of wood. Building materials inform the potential costs associated with maintenance of the building structure.

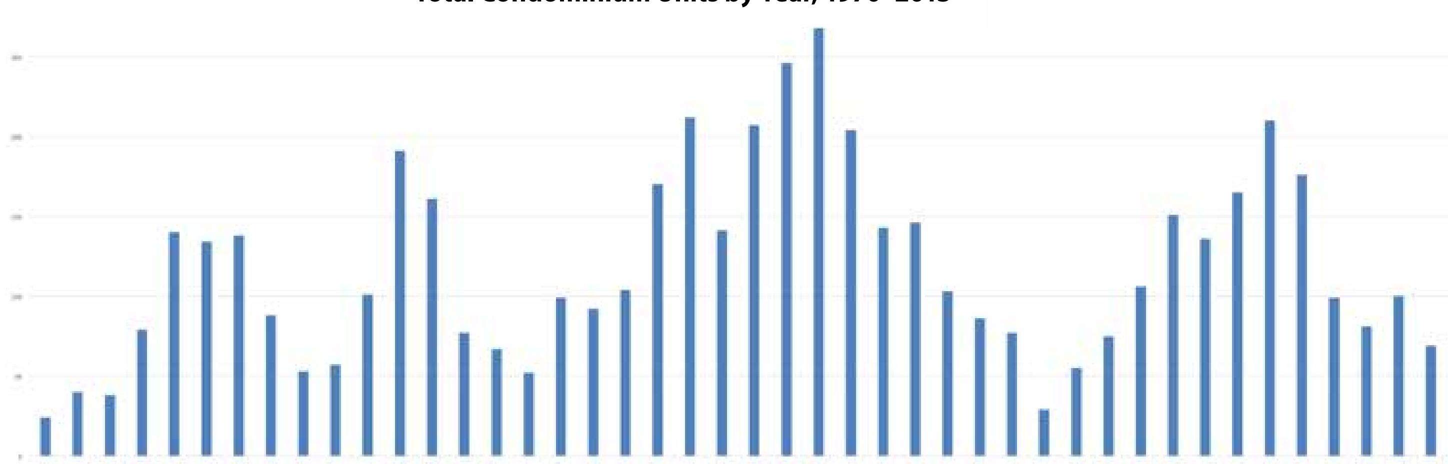
TOTAL CONDOMINIUM UNITS

This graph illustrates the total number of condominium developments built each year from 1970 to 2013. Condominium development did not take off until the early 1970s, peaking in 1994. The graph gives an indication of the age range of condominium buildings in BC.

Concrete v. Woodframe by Municipality, 2013



Total Condominium Units by Year, 1970–2013



Michael Muraz (flickrCC/Michael Muraz)

Reforming the Strata Property Act

The BC Law Institute's Strata Property Law Project

Strata properties have become such a well-established part of the real estate sector in British Columbia that it's easy to forget they are relative newcomers to the scene. It was not quite 50 years ago, in 1966, when British Columbia became the first province in Canada to enact strata-property legislation.

This legislation combined rules drawn from property law, contract law, and corporate law to create a distinctive form of property ownership. Strata properties allow for the individual ownership of units in a multi-unit development. But for strata owners this individual ownership is coupled with collective ownership of the strata property's common areas and assets. To allow for efficient collective decision making and planning, strata owners also become members of a strata corporation, which is responsible for managing and maintaining the common areas and assets.

British Columbia's legislation has developed and matured since 1966. Our current *Strata Property Act* is a comprehensive and sophisticated statute. But just as there are growing pains in the strata-property market, there continue to be pressures exerted on the *Strata Property Act*. Requiring depreciation reports is one example of the ways in which the *Strata Property Act* has been renewed to respond to changing conditions.

THE PROJECT

The BC Law Institute (BCLI) is carrying out a law-reform project to explore other ways in which the *Act* can be renewed. The Strata Property Law Project has been made possible by grants from eight funding bodies, including the Real Estate Institute of British Columbia, the Real Estate Foundation of British Columbia, and the Real Estate Council of British Columbia. The project aims to recommend reforms on seven long-range issues (grouped into three categories) that will need attention when designing the next generation of the *Strata Property Act.*

The first category is concerned with emerging issues. These are legal issues that have risen in prominence since the reform effort of the 1990s that led to the *Strata Property Act*. They concern fundamental changes to a strata property, mixed-use stratas and leasehold stratas. The second category addresses some perennial issues in strata-property law. This area of the law must constantly strike and refine the balance between individual rights and collective interests. The BCLI project will examine whether further refinements are needed in the areas of strata-property governance and common property. The third category looks at a set of issues that arise when the *Act* intersects with another body of law. Here, the project is concerned with intersections between the *Act* and the land-title system and insurance law.

BCLI is being assisted in this project by an all-volunteer project committee led by Patrick Williams. Patrick is a partner of the law firm Clark Wilson LLP and a leading lawyer in the strata-property field. The 13-person committee has representation from lawyers, policymakers, surveyors, realtors, and strata managers. The committee has been meeting monthly since late 2013. In its meetings, it considers legal issues, examines ideas for reform of the law, and agrees on proposals for recommended legislative changes. The goal the committee is working toward is publication of a final report with recommendations on all seven subjects by December 2016.

Termination is part of the subject of fundamental changes to strata property. It refers to a legislative process in which all the defining characteristics of a strata are unwound by eliminating individual ownership of units, dissolving the strata corporation, and leaving the former strata's land and property either in the hands of the owners collectively as tenants in common, or in the hands of a liquidator.

STRATA TERMINATION

But readers will not have to wait until 2016 to get a sense of the committee's proposals. The committee has decided to foreground one topic—termination of a strata—from its list of subjects and plans to publish a consultation paper on it in the spring of 2014.

Termination is part of the subject of fundamental changes to strata property. It refers to a legislative process in which all the defining characteristics of a strata are unwound by eliminating individual ownership of units, dissolving the strata corporation, and leaving the former strata's land and property either in the hands of the owners collectively as tenants in common, or in the hands of a liquidator.

Termination is, in a sense, the end of a strata's life. And just as end-of-life planning can be a difficult and often-postponed consideration for individuals, so end-of-life planning for stratas has proved to be a challenging subject for policymakers.

Property law tends to be geared more towards permanence and stability than towards managing obsolescence and adapting

Kevin Zakreski

Staff Lawyer, British Columbia Law Institute

Kevin Zakreski graduated from UBC Law School and was called to the bar of British Columbia in 2001. He articled and practiced with a law firm in downtown Vancouver in the area of corporate-commercial law. He joined the BC Law Institute in 2003 as a staff lawyer. Kevin has worked on a number of law-reform projects for BCLI and its division the Canadian Centre for Elder Law, relating to subjects such as contracts, real estate, and financial issues involving older adults. Currently, he is the project manager for BCLI's Strata Property Law Project.

Property law tends to be geared more towards permanence and stability than towards managing obsolescence and adapting to changing circumstances. It values individual sovereignty and jealously protects property rights. In strata-property law, these values are often in tension with a collective decision-making process that values majority rule.

Colin I. Mills (flickrCC/Colin)

to changing circumstances. It values individual sovereignty and jealously protects property rights. In strata-property law, these values are often in tension with a collective decision-making process that values majority rule. For termination, the current *Act* resolves this tension procedurally in favour of a collective process, by patterning its rules on the rules that apply to corporate dissolution. But substantively the *Act* affirms a property-law approach. It does this by requiring a resolution of the strata passed by a unanimous vote as the way to commence the termination process. If unanimous agreement to terminate cannot be obtained, then the only recourse is to take matters to court.

In the committee's view, the time is right to take a look at how the *Act* deals with termination. Strata properties built in the wake of British Columbia's first statute will soon be entering the sixth decade of their existence. This is the time when major building components can wear out and fail. Strata owners may be facing some difficult decisions. Buildings can be repaired or renewed. But in some cases it might make more sense to terminate the strata property and sell the underlying land to a developer for redevelopment.

The committee's work on this issue is concerned with whether the *Strata Property Act*'s approach to termination strikes the best balance for owners and others who are facing this difficult decision. This general inquiry contains within itself a number of subsidiary questions. Is it necessary to require the unanimous consent of owners to termination? Would moving to a lower threshold for approval of termination undermine property rights for strata-lot owners? If the unanimous-consent standard is reformed, then how should the legislation protect the rights of dissenting owners? How broadly should the court's role in this procedure be defined? Is it acceptable to limit the court's oversight just to cases involving bad faith or bad behaviour in the termination process, or should they have a wider range of review, embracing the financial merits of any redevelopment plan?

The committee plans to publish its proposals in a consultation paper, which will be open for public review and comment. You can keep track of the committee's progress in this project by visiting its web page at: *www.bcli.org/project/strata-property-law-phase-two*

The British Columbia Law Institute was incorporated under the Society Act *in 1997. BCLI's strategic mission is to be a leader in law reform by carrying out (1) the best in scholarly law-reform research and writing, and (2) the best in outreach relating to law reform. Since 2003, BCLI has had an internal division called the Canadian Centre for Elder Law (CCEL), which focuses on law-and-aging issues with a national dimension. Together, BCLI and CCEL have published over 100 reports, consultation papers, and study papers.*

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MEMBER PROFILE

Wayne Smithies, RI

President,
Martello Property Services Inc.

Wayne Smithies has been a member of REIBC for over 30 years and at the helm of Martello Property Services for 26 of them. Martello currently manages a portfolio of approximately 6 million square feet across BC and Alberta. The company has grown and evolved under various names—CB Richard Ellis Property Management, CBRE Property Management, and JJ Barnicke Management Ltd.

Early in his career, Wayne worked at Manulife as a property manager for a portfolio of buildings in Vancouver. He was a student during this time, studying at UBC for the Urban Land Economics Diploma. After Manulife, the newly formed First City Property Management hired Wayne as its vice-president. When it elected to close up operations in Vancouver, he took it over as Martello Property Services. Now, Wayne's son, Warren, who is a board member at BOMA, works in the business with him and in time will take over the company.

The RI designation has distinguished Wayne from other agents in Canada and the US and has raised him and his company above the facility managers and building operators who are not REIBC members. Wayne adds that Professional membership in REIBC "gives us a feeling of self-worth and pride of accomplishment."

Wayne joined REIBC in 1982. In 1983 he received his Certified Property Management diploma. He became the president of PAMA in 1985 and held the position until 1988. In 1987 he became a Fellow of the Real Estate Institute of Canada. He has held a number of positions at BOMA BC, BOMA Canada, and BOMA International, and in 1993 Wayne received an award from BOMA Canada for dedication and diligence while holding the position of President. In the same year he also received the President's Award from BOMA International for outstanding and dedicated leadership in strengthening the partnership between BOMA International and BOMA Canada. In 2000, Wayne received the President's Award from BOMA British Columbia for outstanding service to the organization.

The Smithies family was one of the founding families of Mulgrave School in West Vancouver. Wayne was Chairman of the Construction Committee that built the $21,000,000 private secondary school from where his son graduated in 2009.

Wayne has been happily married to his wife, Edith-May, for 43 years. His son, Warren, has been working with his father at Martello for three years and, as Wayne put it, this "is the joy of my life." The family skis in Whistler and enjoys tennis and golf on Vancouver's North Shore. Wayne has played rounds in Scotland, Ireland, and Portugal, as well as throughout the United States. Wayne wishes he could bring his yellow lab, Ryker, with him when he travels.

When asked about pet peeves, Wayne says, "I have learned in life that there are two things that politicians do—they have promises and deliverables—yet the twain shall never meet."

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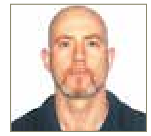
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INPUT PRODUCTION
Input is published three times a year by the Real Estate Institute of BC, a non-profit association. The Institute's members, officers, and staff do not accept responsibility for the statements or opinions expressed in *Input* and publication does not necessarily constitute endorsement.

RI The Real Estate Institute of British Columbia

Editing and design:
Uncover Editorial + Design

Printing: Initial Print & Copy Center

Real Estate Institute of BC
1750-355 Burrard Street
Vancouver, BC V6C 2G8
Tel: 604.685.3702
Toll-free: 1.800.667.2166
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