

# Condominium Investment Analysis

## Alberta REIN Workshop, January 2011

### Why Buy a Condominium?

- Location
- Price
- Amenities
- Simplicity



### So What is a Condominium?

- A lifestyle choice
- A type of real estate ownership
  - High-rise
  - Walkup
  - Townhouse
  - Warehouse
  - Bare land

### What is it? How does it work?

- Essentially a small town with its own town council. Elected by the owners from the owners. Have own rules & regulations
- Anytime you have people living in close proximity, you need to have rules to help govern and operate
- Various documents that govern all condos and you need to know them as you are bound by them.

### The Condominium Property Act

- The name of the Alberta statute that supports, directs and regulates Condominium ownership in the province. The Act always takes precedence over the Bylaws of the Corporation if there is a conflict between the two.

### Regulations

- The regulation is a set of implementation rules, the scope of which is articulated in the Condominium Property Act. Of particular note, the regulations were expanded under the current re-write which took place in September 2000.



### Bylaws

- Set of rules adopted by a special resolution of the unit owners for the administration of their particular Condominium Corporation
- If a condominium does not adopt a custom set of Bylaws, they are governed under Appendix I of the Condominium Property Act

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### Condominium Plan

- Registered at Land Title's Office
- Provides the definition of the perimeter of the property, location of the building therein and the unit boundaries.

### Common Property

- All areas which are not defined as a unit
- Condominium Corporation services and has a duty to maintain the common property throughout the complex
- Each unit owner has proportional ownership of the common property as defined by the Condominium Plan

### Unit

- The portion of ownership which are designated for the private, exclusive use of individual owners.
- Can be defined as a piece of land or a volumetric calculation of space and as defined by the boundary shown on the Condominium Plan

### Unit Factor

- A proportionate share of ownership of common property which can be used to define each owner's responsibility to the common property.
- Under the new legislation, other formulas may be used to calculate this contribution.

### What makes condominiums great and complicated all at once.

- Access to Documents
  - All unit owners are permitted access to the following documents:
    - Audited Financial Statements
    - Budget
    - Bylaws
    - Financial Statements
    - Information Statement
    - Insurance Certificate

- Meeting Minutes
- Rent Ratio Letter
- Reserve Fund Study
- Management Agreement
- Co-Operative Agreement (if applicable)
- Recreation Agreement (if applicable)
- The title (the suite and any parking stalls)

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### Reserve Fund

- Calculation of all depreciating assets owned by the Corporation as it pertains to common property.
- Reviews 25 year term and takes into account the present condition and estimates the replacement of the item and assigns a costs.



### Other Important Documents

- Estoppel Certificate
- Information Statement



### Estoppel Certificate

- Estoppel Certificate tells you:
  - Amount of contributions assessed to the unit
  - Whether contribution are paid monthly, yearly, etc.
  - Whether previous owner has paid his share of contributions and what remains unpaid.
  - The amount of any interest owing on any unpaid contributions.
- Condo Corporation has 10 days to provide Estoppel document to a perspective buyer.

### The Board of Directors

#### Who are the Board of Directors?

From its members the Board elects its executive comprised usually of the following:

- President
- Vice President
- Secretary
- Treasurer
- Directors at Large



### What Does Condo Board Do?

- President
  - The President chairs the meetings and often has a casting vote.
- Vice President
  - The Vice President performs the President's duties in his or her absence.
- Secretary
  - The Secretary ensures the minutes of the proceedings are kept.

### What Do They Do?

- Treasurer
  - The Treasurer reviews and ensures proper financial records.
- Directors
  - Directors can be assigned a variety of tasks dependant upon the type of Condominium Corporation.

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### Items to Look For

- Review the minutes of the meeting as many as you can get your hands on, at least the last 6 months.
- The Annual General Meeting minutes



### Self Managed

Manage property without professionals.

- See how they enforce bylaws.
- Look at the condition of the site.
- Talk to other residents and owners to see how they like the property.



### Professionally Managed

Property Managers are professional corporations which are hired to handle the day-to-day administrative tasks of the Condominium Corporation.



Property manager will also handle many tasks that typically the Board would be dealing with under the Bylaws of the Corporation.

- Handle tasks
- Quotes
- Oversee trades
- Financial Statements
- Fee/Arrears Collection
- Maintenance Planning
- Many Day-to-Day Tasks and inquiries

### People

- What is the demographic layout of the property?
  - Younger, families, seniors?
  - Age restrictions?



vs.



### Pets

- Check the Bylaws/Policies
  - If not – Do not bring them in.
  - If so – Determine what type and how they are approved.

**Do Not bring in a pet prior to getting it approved - you may be turned down.**

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### Parking

How is parking set up and assigned?  
3 types of parking allocations in Alberta.

1. Common Property Assignment
2. Common Property License of Use
3. Titled

*Make sure you know what you have and get the paperwork showing it from vendor and Condominium Corporation. See if a map of its location is available.*

### Budget

- Budget for Common Property
  - The Condominium Corporation is required to develop a budget annual for the operation and maintenance of the common property.



- Fees
  - Unit owners contribute to the budget by assessments that are levied annually by the Corporation.
  - Corporation has the provision to divide these payments through twelve equal installments throughout the year.



- Fee Assessment
  - Unit factor
  - Other (if provided for in the bylaws)

*Caution on comparisons between different condominium corporations and their fees.*

- Special Assessment
  - If a sizeable repair or a shortfall in the budget occurs and funds are urgently required, a special assessment can be completed by the Corporation
  - This amount is based upon whatever formula the Corporation adopts for each unit charge



### What happens if I do not pay the fees?

- Interest Charges
- Legal Expenses
- Caveats
  - Form of securing an outstanding debt owed to the Corporation by a particular unit owner
  - Last resort after notification to the owner of their failure to meet their obligations

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### How to review the documents?

- Financial Statements, Budget, Reserve Fund
  - Need to look at these together.
  - Does the budget and financial statements allow for the contributions indicated in the reserve fund?
  - Is the reserve fund balance similar to what is shown in the financial statements and comparable to the amount required for that year?

### What are the average fees for a building type?

- Townhouses
  - \$150.00 to \$200.00
- Walkups
  - \$320.00 to \$400.00
- Highrise
  - \$400.00 and up

Will vary greatly if utilities are included or not.



*Caution!! You do not want utilities included in your condo fees as an investor!*

### You Should Now Know and Complete...

- Is there an age restriction?
- What are the tenant requirements for this building?
- Are pets allowed and what forms must be completed and submitted?

- You know where the parking stall is (you have been there and seen it and no one else is parking in it).
- You have a plan with the stall to give your tenant if needed.
- Copy of bylaws to your tenant reviewed it with them and had them sign off.



- Show them the amenities of the site (gym, pool, etc.) and have gone over the rules/regulations for these.
- Is the address for service (what is showing on your title) the same as the one you have sent your manager?



You have spent a lot of time, money, and effort researching a building to ensure it fits your investment situation.



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Look for additional units in this property.



### Insurance

- Insurance
  - The Condominium Corporation must maintain a policy over the common property and the units and against the Corporation, Board, and Officer liability with respect to carrying out their functions.

#### • Unit Owner Insurance

- Unit owners are encouraged to have insurance against property loss, personal liability and disaster expenses. Owner's should also have additional coverage for betterments and improvements made to their units.
- Review your insurance requirements with your insurance provider and provide them a copy of the bylaws to ensure you are covered.

### Caution!!

#### • Deductible

- Make sure you have a "Loss Assessment Coverage". Allows you to span the difference between the corporation deductible (\$5000.00 and up) and your own (\$500.00 to \$1000.00).



Your tenant is in the property, cash is flowing in, now what?

### Keep Informed

- Meeting minutes
- Annual General Meeting (attend)
- Ask questions



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### Properties to Avoid/Do Much More Research

- Really low fees
- Cannot get documents when requested
- Conversions
- Self managed
  - Some are good
  - Some are really scary

### What to Look for

- How long has it been self managed?
- Condition of the complex (is maintenance done?)
- Are the Financial Statements and budget professional?



- Brand New
  - Watch out for artificially low fees.
  - No reserve started.
  - Has not been through full operating cycles.
  - Construction deficiencies.



### What to Buy?

- Established properties (5 years old)
- Properly funded reserve and realistic condominium fees
- Condition of the site
- Would you live there at some time in your life?

### FAQ

1. My tenant is paying my condominium fees so it is not my problem.
2. My tenant has caused the problem so go deal with them.
3. I forgot to pay my fees, you can drop the interest and collection changes right?

1. My bank/lawyer/accountant does that.
2. I did not get any notices/nobody told me I had to pay so I don't have to pay.

