

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 inquires

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 charges 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.

