

Condominium Investment Analysis



*BC Workshop
March 2011*

**Michael Stiebritz
Candema Property Management
mikes@candema.com**

TOP Six Investor Mistakes

1. Not notifying the _____ of intent to lease.
2. Not providing the corporation with current
_____.
3. Not having adequate _____.
4. Not reviewing the _____ in detail.
5. Telling the manager/condo board that the
_____ is their problem to deal with.
6. Placing the wrong _____ in the building.

Condominium Unit

Due Diligence Health Check

Building Overview:

What is the neighbourhood demographic? _____
Would you live in the area? YES / NO
What is the condition of the building? (scale 1-10) _____
What is the type of building? Townhouses (20+) Walk-up(40+) High Rise (50-70) Other _____
How many units are in the building/complex? _____
Are there any amenities? Gym Pool Hot tub Other _____
What is the owner profile in the building? Younger Older Families Professional Retired
Is there a recent Phase 1 Environmental Study available? YES / NO
Rental Ratio % (how many units are rented vs owner occupied) _____
(Lower is better)

Parking & Storage

How many parking stalls come with the unit? _____
Can I rent extra stalls? Yes / No \$ _____
Does parking map clearly define stall location? YES / NO
Does storage locker map clearly define location? YES / NO / NA

Bylaw Review:

Check Bylaws for:

- | | | |
|--|---------|----------|
| A. Rental Restrictions (how many allowed in building) | # _____ | |
| a. If so, can you rent yours? | | YES / NO |
| B. A large 'damage deposit' to condo corp for rentals | | YES / NO |
| C. Is there an easy Owner grievance arbitration procedure? | | YES / NO |
| D. Parking Restrictions (of any sort) | | YES / NO |
| E. An age restriction (May affect CMHC financing & rental) | | YES / NO |
| F. Requirement of rental notification to condo corp | | YES / NO |

SPECIAL NOTE

Always present your tenants with a copy of the bylaws and to have them sign the **Tenant Condo Bylaw Acknowledgement Form**.

Condo Suite Overview:

Condition

What is the interior condition of suite? (scale 1-10) _____

Does it need renovations to meet 'Rent Ready™' status? YES / NO

Estimated cost to make it ready \$ _____

Does this include replacement of appliances? YES / NO

Rent

What do units of this size rent for in this area? \$ _____

Is it currently being rented? YES / NO

What is the Rent? \$ _____

Is rent competitive to the market? YES / NO

When Was Last Rental increase given? _____

Do I want the current tenant? YES / NO

Do I need vacant possession? YES / NO

Management

Read the Rental Management Contract (*and rental pool agreement if in place.*) Speak with a management company representative AND on-site manager to get a feel for their thoughts on the building.

How is the unit currently being managed? Professionally Managed / Self Managed

Management Phone Numbers _____

Is there an Onsite Manager? YES / NO Professional / Needs Improvement

Are the contracts coming due for negotiations? YES / NO

Are management costs slated to increase in near future? YES / NO

Rental Pool

Is there a rental pool in place? YES / NO

What is the unit factor for distribution of pooled rents? _____

Who manages the pool? _____

What is their fee? _____ %

Can you participate? YES / NO

Financial:

Condo Fee

What is the current monthly Condo fee \$ _____

How is it calculated (unit factor/other) _____

Does it include utilities for the unit? YES / NO Heat Power

Is it appropriate for the type of property? YES / NO

Are there any special levies? YES / NO Amount \$ _____

Are there any increases scheduled? YES / NO Amount \$ _____

Reserve Fund

Do the contributions match the budget and financial statements? YES / NO

Does the reserve balance match the financial statements (within reason) YES / NO

Are there any pending or current cash calls to be paid by the owners? YES / NO

Insurance (Corp and Yours):

When was Condo Corp's Insurance Last Reviewed? _____

What is the deductible on the Corporation's Insurance? \$ _____

Will your insurance company provide you with:

a. Rental Loss Coverage? YES / NO

b. Loss Assessment Coverage? YES / NO

Condominium Corporation Health Check

Speak with representatives of the Condo Board to get a feel for the atmosphere.

Is there pending litigation against the condominium corporation? YES / NO

(the Condo Board must reveal this to you – also check board minutes)

Review last 2 years of Condo AGM Minutes and last 6 months of meeting minutes for potential problems.

Review the Annual Condo Budget.

A. Compare last year's budget for accuracy with actual operating costs.

B. Review the upcoming year's budget to see if appropriate adjustments have been made.

Review the Condominium's Financial Statements for an Adequate Reserve Fund vs Upcoming Required Repairs

SPECIAL NOTE

When purchasing a condo or group of condos, in addition to completing this checklist, ensure you complete the REIN™ Property Analyzer Form with accurate market numbers and review the "Focus on Due Diligence" booklet in your ACRE™ program.

OWNER/TENANT UPDATE FORM

Please fill in all blanks applicable to your condominium unit and confirm information included.

Date: _____

First Name_____ Last Name_____

Property Address: UNIT#_____SUITE#_____

Mailing Address: _____

Owner's Phone Numbers

Home Phone #_____ Work Phone # _____

Cell Phone #_____

Parking Stall Number : _____ License # _____

Emergency Contact Name_____

Emergency Contact Phone_____

Tenant (Name)_____

Home Phone #_____ Work Phone _____

License # _____

Rental Amount \$ _____

I/we _____ have received a copy of
the bylaws for condominium corporation _____ and
recognized that I am bound by, and will respect and honor the rules and regulations as
presented therein.

Tenant Signature

Witness

Print Name

Date

Tenant Signature

Witness

Print Name

Date

Tenant Signature

Witness

Print Name

Date

Landlord

Date

Received by the Condominium Corporation on this day _____, 20__.

Renovation "Rent-Ready" Checklist

Property Address:

Kitchen

Notes

<input type="checkbox"/>	Cabinets	White or Modern Wood	
<input type="checkbox"/>	Cabinet Knobs	Nickel or Modern	
<input type="checkbox"/>	Counter Tops	Modern Color & Good Cond.	
<input type="checkbox"/>	Sink	Double	
<input type="checkbox"/>	Taps	Good Condition	
<input type="checkbox"/>	Appliances	White, Black, or Stainless Steel	

Bathroom

<input type="checkbox"/>	Tub and Toilet	White, Good Condition	
<input type="checkbox"/>	Sink	White or Modern Color	
<input type="checkbox"/>	Cabinet	White or Modern Wood	
<input type="checkbox"/>	Cabinet Knobs	Nickel or Modern	
<input type="checkbox"/>	Counter Top	Modern Color & Good Cond.	
<input type="checkbox"/>	Tiles or Tub Surround	Modern Color, Good Cond., & Clean	
<input type="checkbox"/>	Towel Bar & T.P Holder	Nickel or Modern	

Overall Interior

<input type="checkbox"/>	Paint - Walls	Beige, Good Condition	
<input type="checkbox"/>	-Trims	White or Modern Wood, Good Cond.	
<input type="checkbox"/>	Door Handles	Nickel or Modern	
<input type="checkbox"/>	Closet Knobs	Nickel or Modern	
<input type="checkbox"/>	Light Switches & Plugs	White	
<input type="checkbox"/>	Floor & Fresh Air Vents	White	
<input type="checkbox"/>	Floor Coverings	Modern, Good Cond. & Clean	
<input type="checkbox"/>	Light Fixtures	Nickel or Modern	

Basement

<input type="checkbox"/>	Furnace	Cleaned, New quality Filter	
<input type="checkbox"/>	Hot Water Tank	Flushed or Replaced	
<input type="checkbox"/>	Misc.		

Exterior

<input type="checkbox"/>	Front Door Light	White, Nickel or Modern	
<input type="checkbox"/>	House Number	White, Nickel or Modern	
<input type="checkbox"/>	Mail Box	White, Nickel or Modern	
<input type="checkbox"/>	Front Door	White or Modern	
<input type="checkbox"/>	Locks	Master Keyed - Weiser	
<input type="checkbox"/>	Window & Door Frames	Modern Color or Capped	
<input type="checkbox"/>	Gutters & Downspouts	Cleaned, Directed away from House	
<input type="checkbox"/>	Yard	Clean, Trees Trimmed, Lawn Cut	
<input type="checkbox"/>	Garage	Cleaned out	

► You are NOT "Rent-Ready" until all Boxes are checked off

Condominium Investment Analysis

BC REIN Workshop March 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

Condominium Investment Analysis

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)

Condominium Investment Analysis

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.

Condominium Investment Analysis

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.

Condominium Investment Analysis

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

Condominium Investment Analysis

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.



Condominium Investment Analysis

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



Condominium Investment Analysis

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.

