

## The Present and Future of Condominiums

### Overview of Condominiums

We all know what condominiums are, OR DO WE. People buy condos to live in, or as rental investments. As a unit owner you pay a monthly fee to the condo corporation. The fees collected are used to cover the costs of the property operations. (Utilities, landscape/snow, repairs, insurance, management, reserve fund etc.) However, often times that is where the understanding ends.

A number of condo owners believe they pay a monthly fee to property management and property management does what they want with these funds. When in fact there is a Board of Directors who make the decisions and determine how funds are spent.

Management is like the legs or coordinator to the Board. The Board makes the decisions and we carry out their directives.

As managers we are:

**Physical Managers** – responsible to insure repairs are done. Obtain quotes. Deal with contractors, make sure contractors have proper insurance and equipment to do a job.

**An Inspector** – inspect the property regularly.

**Inventory Controller** – building supplies.

**Financial Manager** – manage funds and assets. Accounts payable/receivable, payroll, monthly financial statements, annual budgets, arrange for auditors.

**Administrative Duties** – maintain corporate records, enforcement of condominium documents, letters to owners, liens on units, court proceedings etc. Preparation of Status Certificates.

**Advisor** – provide informal advice. Depending on the matter at hand, services from a professional lawyer, accountant, engineer may be required.

**Communicator** – effective communications with the Board of Directors, unit owners, staff and contractors.

**Human Resources** – working knowledge of labour relations and employment standards. Hiring and firing of building staff.

**Mediator/Arbitrator** – resolving issues between the Board and Owners, Owners and Owners, Board and Contractors, Staff and Board, Staff and Owner, etc.

**Babysitter** – I hate saying this, however we do have to babysit people and spoon feed them at times.

As you can see our role is definitely not dull or boring as we wear many different hats and take on many different roles. Our days often consist of long hours, emergencies, complaining people and people wanting action now. It is not uncommon for our days to start at 7 a.m. and end at night after a Board meeting.

I have always said managing the bricks and mortar is easy, if we could get rid of the 3 P's our jobs would be so much easier. The 3 P's is Pets, People and Parking. The 3 biggest issues and headaches in any condo corp.

A lot of people think all condo corps are the same, which is not the case. There are different types of condominium corporations:

**Standard Condo Corp** – this is what most people would be familiar with. The units and the common elements form the corporation. The condo corp maintains the common elements and units excluding improvements made by the unit owner. Condo corp insurance covers the common elements and units (excluding unit owner improvements) Can be buildings or townhouse developments.

**Vacant Land Condo Corp** – the land is the condo corp. The units are not part of the condo corp. Therefore the unit owner maintains the unit and insures the unit. Most common today in townhouse developments.

**Common Elements Condo Corp** – land and any common element structures (club house, park equipment etc.) is the condo corp. Units are owner responsibility.

Condo owners will often compare fees they pay to fees a friend pays at a different condo. Often times if there is a wide spread it is because they are not in the same type of condo corp. ie. Standard vs. Vacant Land. However the owner that is comparing believes because they are both condos they are the same, and often asks why one fee is much

higher than the other. The answer generally is because the lower fee corp does not have to provide the same services and the reserve fund allocation is usually lower.

**Reserve Fund** – As per the Condominium Act of Ontario all condo corps must maintain a reserve fund. The fund is to be used for the major repair and replacement of the common elements. (roofs, asphalt, windows/doors, mechanicals, etc)

Condo corps must have a reserve fund study (RFS) completed by a qualified engineering or architectural firm. Generally we find engineering firms provide this service.

RFS must be updated every three years. The study looks at all components the condo corp is responsible to maintain/replace and establishes a plan for this work over time and a financial plan of how much to save each year so the money is available when a major project is undertaken.

Once a study is approved by a Board, the condo corp will allocate the annual amount recommended in the study to the reserve. Funds in the reserve can only be invested in guaranteed returned investment vehicles such as GIC's and savings accounts. They cannot be invested in things that can fluctuate. ie. stocks etc.

### **Condos At Present**

The Condominium Act 1998 came into effect May 2001 and was amended/updated in 2017. There still remains some sections with proposed changes awaiting government approval. The Act is legislation that regulates most aspects of condo formation, purchasing, living in, and governance. Condo Corporations have some key documents being, Declaration and By-laws which are based on the Act. The Act falls under the responsibility of the Ministry of Consumer and Commercial Relations which is Provincial jurisdiction.

When the Act was updated in 2017, the Condominium Authority of Ontario (CAO) was formed. This is a not for profit organization created under the Act and operates under an administrative agreement with the Ontario government. The mandate of the CAO is to support consumer protection for condominium communities and to provide resources

and services for condominium buyers, owners, residents and directors across Ontario.

The organization provides a variety of services and resources including:

- Information regarding the rights and responsibilities of condo owners, residents and boards
- Mandatory training for condo directors
- Self-help tools and guided steps to solving common issues
- Canada's first fully online tribunal, the Condominium Authority Tribunal (CAT), currently legislated to resolving records-related disputes

All condo corps in the province must be registered with the CAO and they pay \$1 per unit per month to the CAO. The collected dues are used to operate the CAO.

Also formed at the time the Act was updated was the Condominium Management Regulatory Authority of Ontario (CMRAO). This is a self-funded non-profit organization that is accountable to the Ontario Ministry of Government and Consumer Services. As a regulatory body providing oversight of condo managers and management companies, the CMRAO helps protect consumers in Ontario's rapidly growing condo industry.

Prior to the creation of the CMRAO, anyone could get a desk and a computer and say they were a condo manager.

Condo managers and companies must now be licensed, meet minimum education and work experience requirements and comply with a code of ethics. Meeting these standards enhances the integrity of the sector, elevates the profession and provide condo owners with confidence with those who manage their important investment. The CMRAO works in the public interest to license and regulate condo management professionals.

You cannot manage a condo corp for a fee without being licensed. Condo Corps can self-manage, however, no one can receive compensation if self-managing.

### **Recent Challenges**

Over the past two years we have all experienced additional challenges with the pandemic and this has been no different for condo corps. More so for buildings than townhouse complexes.

All condo corps experienced the inability to hold Board and annual meetings in person which moved meetings to the virtual platform. While some liked this new way, others not so much. In the Niagara area we find condos are currently heavily populated by retirees and a lot of these people are not computer savy and prefer in person meetings.

Contractors are extremely busy, therefore response times have slowed. Material costs continue to increase and the delivery times on materials/parts has increased. The ability to hire qualified people has also been a huge challenge. Rising costs impact budgets and condo fees.

Condo buildings have had to ramp up cleaning of common areas. Amenities such as pools, gyms, etc have been closed. Reopening's have recently happened.

The responsibility of notifying the condo community that you have an active Covid case in the building and owners wanting to know who, and we are not permitted to tell them under the Privacy Act. All of this only breeds frustration.

Getting required in-suite inspections done and Covid Protocols . Owners not co-operating.

So has it been fun, definitely not, however the light can be seen at the end of the tunnel.

Another big issue over the last few years has been the legalization of cannabis. If not all, then most sites we manage have passed rules to prevent the smoking and growing of cannabis. However as we know not everyone follows the rules. So this has brought on challenges. I was shocked to see the difficulties we had in getting some Boards to pass a cannabis rule. Not sure why, other than all the hippies from the 60's are now seniors and maybe old habits are hard to break.

Condo corps have also been faced over the last few years and into the foreseeable future with rising insurance premiums and deductibles. Unfortunately a lot of insurance companies have dropped out of this sector of the industry and are no longer quoting to insure condo corps. Over the past two years our broker has gone out to 18 companies and only 4 have quoted. We have seen premiums rise on average about 30% and in some cases 92%.

Water damage claims is the largest area for claims and we have seen Water Deductibles increase from \$2,500 to \$10,000, \$25,000 and we have a few sites at \$100,000.

Therefore the condo corp is self-insuring for this amount. Unit owners want to make sure they have coverage on their homeowners policy that covers them for the condo corps deductible, in the event the nature of the claim is due to the home owners negligence, or there is wording in the corporations By-law that permits the condo corp to charge back the deductible if the nature of the claim was not the condo corps negligence. (eg. Pipe bursts – not the condo corps fault, it just happens)

There have been cases of condo corps not being able to secure insurance coverage and cases where the premiums are so high the corp has had to do a special assessment of the unit owners to pay the premiums.

### **The Future for Condos**

It is fair to say there is a significant percentage of the market that purchases condos and will continue to do so.

In 2012 there was approximately 6,750 condo corps in Ontario. As of 2020 it is reported that there is approximately 11,000 condo corps in Ontario for a total of approximately 900,000 units. A 63% increase in condo corps over 8 years, and based on what we all see happening out there, it is not slowing down.

The condo market remains strong and growing.

We believe a number of condo corps will struggle to fill Board positions as these positions are volunteer and new Board members are required to complete an on line training course through the CAO. We have seen a number of people decline coming onto a Board when they found out training was involved. However, the training is very helpful and

makes you a better Board member for your condo community. Additionally an educated Board member makes the property manager's job easier.

Insurance will continue to be a challenge as well.

### **LIFE LEASE PROPERTIES**

Units are not owned in fee simple interest like you and I would own our homes or condos. Therefore units are not in the Land Titles data base with a unit registered to an individual. NO DEED. Residents purchase a unit, however, sign a Life Lease and therefore are technically tenants of the Life Lease property. Lease runs for a period of time (eg. 49 years)

Properties are typically built by church groups or clubs. (eg. FSNP-4 church groups, HBV-Club Heidleberg)

Life Leases are not bound by any government legislation, however from my experience they usually operate similar to a condo. There will be an annual operating budget, funds will be allocated to a reserve fund for future projects, and residents pay a monthly fee. Maintenance in units is usually included (ie. appliance repairs, toilets, taps, etc.)

With condos this would be a unit owner's responsibility.

There is a Board of Directors. Some Boards consist of the club members that built the property and others consist of volunteers from the church group and may or may not include representation from residents living in the property.

Banks will provide mortgages on condos however will not on Life Lease units as these are not deeded to an individual and therefore a bank cannot foreclose on a unit.

When you want to sell your condo, you choose a real estate agent, list the unit and as the owner, sign off on offers and receive the proceeds.

With Life Leases there may be a formula that is applied to calculate what you will receive

and it is basically a discounted percentage a year, up to a maximum. (eg. Bought for \$200,000 and sell 10 years later, after the formula is applied you may receive \$180,000. The club handles the sale and if not sold in 6 months they will buy back the unit at the calculated price. If it sells sooner you still get that amount, just sooner. If the Club sells for \$300,000, the Club retains the profits for the Club. Under this scenario the Club will decide if any refurbishing is needed to the unit and pay that cost.

Another way for sales is you as the Life Lease Tenant determine the price and method for sale is your choice, either handled by an outside agent or in-house. You pay a commission to the Life Lease Non Profit and they put those funds in the building reserve. Under this scenario you will benefit from increases in the real estate market. Under this scenario the Life Lease Group does not deal with any refurbishment to the unit. Therefore as the selling tenant you either sell as is, or pay for some improvements.

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