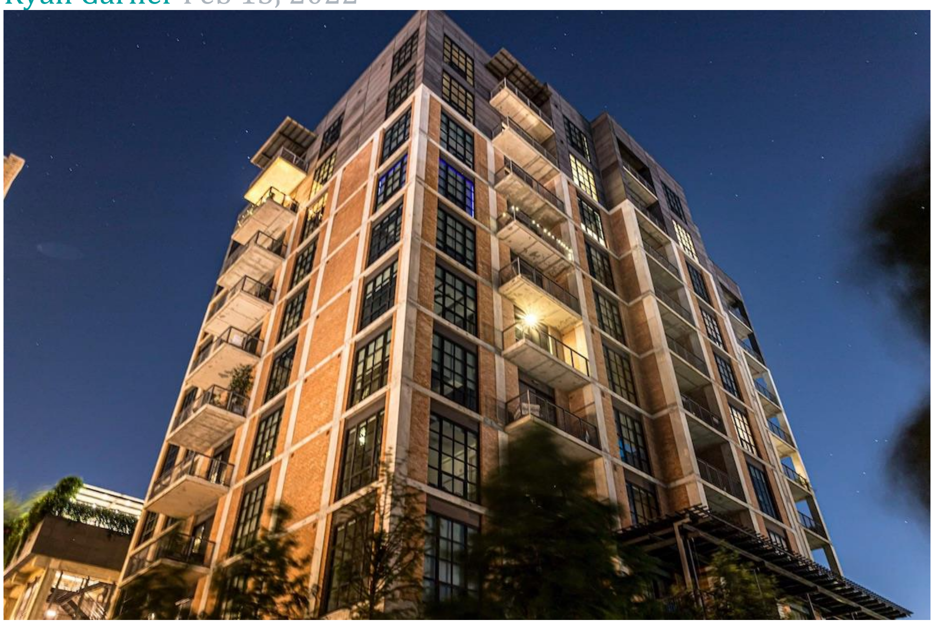
Dwindling reserve funds pose increasing risk for owners

Ryan Garner Feb 15, 2022

 *Photo: Agustin Lara / Unsplash*

A recent report by the Canadian Institute of Actuaries (CIA) warns that low contributions to condominium reserve funds could result in significant annual increases and require lump-sum payments from owners to cover shortfalls.

The report examines the state of the Canadian condo industry, sounding alarm bells that reserve fund deficits across the country, combined with rising interest rates, could potentially lead to the loss of homes.

One of the major issues outlined by CIA is the deferral of contributions from current owners to future buyers, essentially passing the buck, which could add financial strain to future generations and lead to overinflated property values.

“In aggregate, not enough money is being set aside for future expected payments or to cover unexpected repairs,” says Jean-Sébastien Côté, co-author of the report. “There are large bills to be paid soon, and very few condos have saved enough, especially those constructed since 2000.”

The report outlines four key recommendations to help protect the value of condo infrastructure and reduce the risk to Canadian condo owners.

The most pressing area of need is maintaining a realistic minimum annual contribution, helping to ensure that there is enough money set aside in the reserve fund to cover any repair or replacement costs.

“The minimum annual reserve fund contribution should be one per cent of the full reconstruction cost of the condo building,” the report said. “Also, the reserve fund balance should never be, at any time, below the amount of deductible for property damage on the condo corporation’s insurance policy.”

Citing a lack of data regarding the condominium industry, the report states that governments should administer a standardized form to condo corporations to gather data in order to make any necessary adjustments to contribution levels.

Education should also be prioritized, including additional educational material, mandatory training courses, and ongoing refreshers to keep stakeholders informed about condo-related issues.

The CIA also recommends updates to condo legislation, mandating that condo boards put aside additional funds for emergencies and unexpected market changes.

“Legislation should require condo corporations to hold in the reserve fund a financial cushion that would be above what is required by a reserve fund study,” the report said. “It should be high enough to cover emergency repairs and avoid a special assessment, but not so high that condo owners over-contribute for that financial protection.”

Adding to the dilemma for owners of aging condos, the CIA notes that maintenance and repair costs have increased at a higher rate that inflation. As a result, the cost of replacing common elements has required some guesswork from condo corporations to ensure they can maintain a healthy reserve fund for decades to come.

“The cost of replacing common elements in the future will be harder to predict as some are to be replaced 10, 20, 30, and sometimes 60 years later,” the report said. “The major issue is to forecast the expected cost of those common elements in the future with the intention of contributing the right amount to the reserve fund each year until the repairs or replacements are due.”