The Notary Group

Smooth Moves

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Important Homework for Strata Buyers

Strata properties are a form of shared property ownership. Shared ownership means shared responsibilities – if you are thinking about buying a strata property, you will have obligations to the other owners, and to your lender.

It's very important to make sure that the strata you are thinking about buying into is actually meeting these obligations. If it is not, your lender could refuse to fund your mortgage (even if that mortgage was pre-approved). It could also mean that you would have difficulty selling the property later on, or that you would have to take a significant loss on the sale price.

This is such an important piece of homework that your **Realtor®** should make it a "subject to" clause in your offer to purchase. Before you remove this "subject to" clause in your offer to purchase your new strata, make sure you take a look at the following issues, and get legal advice on anything you are not certain about.

Joining a Strata Corporation

When you buy a strata property, you become a member of a **strata corporation**.

Strata corporations must manage and care for the common property and common assets for the benefit of the owners as a group. You can't opt out of this obligation. So if something has caused damage to the common property (like the outside wall of another

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unit), all of the owners are responsible for fixing it, whether or not it directly affects their own unit.

Each strata corporation creates a **strata council** to make sure that its obligations are met throughout the year. You can join this strata council.

Strata Meetings

All strata corporations have to meet once each year (an "**annual general meeting**") to approve a budget for the upcoming year, elect a council and deal with any other business. Each strata lot gets one vote, unless the strata corporation has made an exception.

If something comes up during the year that the owners need to deal with immediately, the strata corporation will hold a **special general meeting** for that issue.

The strata council will also meet regularly, to deal with any ongoing business, such as paying bills, ensuring repairs are made, dealing with disputes or requests from owners.

When you are buying a strata property, you should review the **minutes**, or written transcription of these meetings. It is *strongly recommended* that you review at least two years' worth of minutes for the strata council meetings, the annual general meetings and any special general meetings that were held.

Look for things like:

- law suits
- signs of major repairs – balconies, roofs, exterior or interior painting
- notes about hiring engineers, accountants or lawyers, or about reports from these people
- too many "surprise repairs" – hot water tanks failing more often than they should; leaks; lights failing; electrical problems
- unpaid bills, or incomplete repairs
- evidence of regular maintenance – powerwashing, gardening, touch-up painting
- signs of petty squables, or that other owners are pitching in to help keep the building in good shape – committees, security patrols

Budgets and Financial Statements

Every strata corporation has to keep records of its finances, and plan for its future expenses.

Each year, the strata corporation has to prepare a **budget** that shows the estimated regular annual expenses for the year to come. The budget should have financial statements with it that show the strata's financial history.

For example, the budget might show insurance premiums, estimated cleaning, heating, water or other utilities for the year, and also revenues – strata fees, move-in/move-out fees, late payment penalties, etc.

The owners have to approve this budget each year at the annual general meeting. Make sure you see the most recent budget, and the financial statements for the past two years.

When reviewing the budget and the financial statements, look for things like:

- unusual or missing items – for example, very high heating expenses, or no line for insurance
- shortfalls between how much money the strata corporation makes and how much it spends – if the strata corporation isn't bringing in enough to pay its expenses, your strata fees will have to be increased
- is money being put into a contingency reserve fund for bigger repairs or maintenance?

Contingency Reserve Fund

A **contingency reserve fund** (a "CRF") is a savings fund – to be used for unusual expenses, or expenses that happen infrequently (like repairing your roof every 15 years, or re-painting the building every 5 years).

By law, if your CRF is less than 25% of the strata corporation's operating budget for the last fiscal year, the owners must pay into the fund to top it up – there is a formula for how must these payments have to be, and this could significantly increase your strata fees.

If your CRF is more than 25% of the strata corporation's operating budget, paying into the CRF is optional, depending on how much money the depreciation report recommends the strata corporation put away.

Look to see how big the fund itself is, but also how much is being contributed to it each year.

Depreciation Reports

A depreciation report must contain, among other things: an inventory of the strata's assets; an evaluation of the strata's required repairs and maintenance work; and a detailed forecasting of how the strata expects to pay for the maintenance and repairs, and when.

Some stratas may be exempt from this requirement to have a depreciation report (if there are fewer than 5 units, or the strata has passed a ¾ vote).

However, your lender may still require a depreciation report before they will fund your mortgage. It may also be very difficult to sell your property without a depreciation report.

Insurance Policies

Your strata will have to keep **property insurance** on its common property and assets, its buildings and fixtures. This insurance must be for full replacement value, and it must cover a wide range of major perils.

Your strata should also have insurance coverage for your strata council – sometimes called **directors' insurance**, or **errors and omissions insurance** – since your strata council is made up of other volunteer (non-professional) owners, it should be protected from the fallout of any *honest* mistakes it makes.

Don't forget that you will need to get your own insurance, separate and apart from the strata corporation's insurance coverage.

Questions? Ask us!

The Notary Group has offices throughout the Okanagan. Please check our website at www.thenotarygroup.ca for information on branch locations and phone numbers, or you can e-mail us at info@thenotarygroup.ca for more information.