Depreciation Reports &
The Strata Property Act of British Columbia

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Nanaimo, BC
Agenda

- Depreciation Reports and New BC Regulations
- Report Requirements
  - Types of assets
  - Service life estimates
  - Renewal and major maintenance items
- Evaluating proposals
What is a Depreciation Report?

→ A depreciation report is a legislated planning requirement for strata corporations of 5 strata lots or more.
   → A strata can vote to decline the depreciation report (3/4 vote)

→ Long-range financial planning tool (30 year forecast)

→ A static document that requires updates every 3 years.

→ An element utilized in the operation of a building
What is the purpose of a Depreciation Report?

Long term planning for maintenance and renewals for common property and common assets that a strata corporation is required to maintain and repair.
Value of a Depreciation Report

No Depreciation Report

Lots of surprises; not much peace of mind
“Failing to plan is planning to fail”

With a Depreciation Report

Few surprises; peace of mind
“Plan the work and work the plan”
Are Mandatory Depreciation Reports Common?

No
Yes
Standards & Best Practices

Reserve Fund Study, Capital Replacement Plan, Depreciation Report (?)
→ Physical component inventory of **commonly owned assets**

→ Evaluation based on an **on-site visual inspection**

→ All repair, renewal, and **maintenance costs** (> 1 year frequency) anticipated for each asset for a 30-year planning horizon

→ Factors used to calculate costs (ie. inflation, tax rate, interest rate)

→ Current balance of CRF and minimum of 3 cash flow funding models
Who is a Qualified Person?

→ Legislation requires depreciation report to be completed by a “qualified person”

→ Likely includes engineers, accountants, professional reserve analysts, and appraisers

→ Why are Building Envelope Engineers leading the completion of many of the reports within the current market?
Example Breakdowns of Typical Building Renewal Costs

5-yr Building Renewal Costs

- Enclosure, $362,400
- Electrical, $3,800
- Mechanical, $1,100
- Sitework, $21,600
- Amenities, $10,300

- Enclosure, $702,100
- Electrical, $1,100
- Mechanical, $35,400
- Elevator, $123,500
- Fire Safety, $18,300
- Interior Finishes, $73,200
- Sitework, $2,400
- Amenities, $7,200
How does E&O insurance affect the depreciation planner and the strata corporation?

Errors and Omissions insurance, if carried by the depreciation planner, is basically carried for the purpose of protection of the consumer and planner in the event there is a material error in the report that results in a loss or claim against the strata corporation.
How long is a Depreciation Report Valid For?

30 Year timeline to be updated every 3 years
Process to Complete a Depreciation Report

Physical Analysis
How long do things last?

Financial Analysis
How much do things cost?

Expenditures
How much do we need?

Funding
How much do we have?

Model 1
What if..?

Model 2
What if..?

Model 3
What if..?

Model 4
What if..?

Preferred Model
How are we going to pay for things?

Update Study
Documents Required for a Depreciation Report

Financial Documents
- Operating budget
- Balance sheet
- General ledger
- Copies of invoices
- Insurance certificate/appraisal

Technical Documents
- Drawings
- Prior investigation reports
- Annual fire inspection report
- Maintenance manuals
- Maintenance logs
- Other

Legal Documents
- Reciprocal easements
- Service agreements
- Air Parcel Agreements
- Leases and Licenses

Governance Documents
- Strata Plan
- Bylaws
Examples of Provided Documents

- Insurance appraisal
- Balance sheet
- Operating budget
- Warranty documents
- Bylaws
- Drawings and past project documentation
- Service contracts
- Maintenance plans
Physical Analysis

- Inventory all assets
- Estimate remaining service life or major maintenance for all assets
Major Building Systems

- Enclosure
- Electrical
- Mechanical
- Elevator
- Fire Safety
- Interior Finishes
- Amenities
- Site Work

Major systems
Interconnected Systems in Buildings

Structure

Mechanical

Enclosure

Electrical

Sitework

Fire Safety

Finishes

Windows

Roofs

Walls

Doors

Balconies

Structure

Mechanical

Enclosure

Electrical

Sitework

Fire Safety

Finishes

Windows

Roofs

Walls

Doors

Balconies
Samples of Building Assets

- Roofs
- Enterphone
- Floor finishes
- Sensors
- Fire sprinkler system
- Guardrails
### Asset Inventory - Enclosure

<table>
<thead>
<tr>
<th>Component</th>
<th>Location</th>
<th>Description</th>
<th>Chronological Age</th>
<th>Effective Age</th>
<th>Service Life</th>
<th>Remaining Service Life</th>
<th>Outstanding Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Metal-clad Turrets</strong></td>
<td>Turrets at east and west elevation of roof.</td>
<td>Steep standing seam metal roof over a membrane underlayment.</td>
<td>24</td>
<td>24</td>
<td>40</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td><strong>Profiled Metal Shingle Roof</strong></td>
<td>Main sloped roof area.</td>
<td>Decra Bond metal roof shingles over a membrane underlayment.</td>
<td>24</td>
<td>40</td>
<td>40</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td><strong>Walkways w/ Concrete Pavers</strong></td>
<td>2nd and 3rd floor walkways.</td>
<td>2-Ply SBS modified asphalt thermo-fusible membrane overlaid with concrete pavers.</td>
<td>11</td>
<td>11</td>
<td>35</td>
<td>24</td>
<td>0</td>
</tr>
<tr>
<td><strong>Skylight</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sloped Glazing</strong></td>
<td>In roof areas above the main entrance lobby and the east end of the exterior walkway.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Asset Inventory - Electrical

#### Electrical Distribution
- **Location:** Main electrical room on parkade level.
- **Description:** Commander switchgear, distribution boards, panelboards, and metering equipment.
- **Chronological Age:** 24
- **Effective Age:** 24
- **Service Life:** 50
- **Remaining Service Life:** 26
- **Outstanding Conditions:** 0

#### Exterior Light Fixtures
- **Location:** Mounted to walls and soffits, buried amongst the soft landscaping.
- **Description:** A variety of fixture types, including recessed pot lamps, wall mounted fixtures, and landscape lighting.
- **Chronological Age:** 14
- **Effective Age:** 14
- **Service Life:** 20
- **Remaining Service Life:** 6
- **Outstanding Conditions:** 0

#### Interior Light Fixtures
- **Location:** Parkade, hallways, service rooms.
- **Description:** A variety of fixture types, including incandescent and fluorescent, wall mounted, recessed ceiling pot lights, pendant fixtures, compact fluorescent, and strip fluorescent fixtures.
- **Chronological Age:** 12
- **Effective Age:** 17
- **Service Life:** 25
- **Remaining Service Life:** 8
- **Outstanding Conditions:** 0

#### Enterphone System
- **Location:** Mounted beside lobby door.
- **Description:** Intercom 3000 panel, control cabinet, wiring, electric door release and auxiliary devices for security access at the primary point of pedestrian entry the building.
- **Chronological Age:** 24
- **Service Life:** 25
Asset Inventory - Mechanical

**Controls**
- **Mech 01 - Parkade Gas Detection**
  - **Location:** Mounted to wall on parkade level.
  - **Description:** CET series electrochemical detectors for detection of dangerous carbon monoxide (CO), produced by vehicles and to activate fans accordingly.
  - **Chronological Age:** 12 years
  - **Effective Age:** 12 years
  - **Service Life:** 12 years
  - **Remaining Service Life:** 0 years
  - **Outstanding Conditions:** 0

**Valves & Cross Connection**
- **Mech 02**
  - **Location:** Parkade level, suite interiors. Backflow preventer at cany
  - **Description:** Various types and sizes of valves, including shut off valves, preventer, check valves and balancing valves to regulate water through domestic systems.
  - **Chronological Age:** 24 years
  - **Effective Age:** 22 years
  - **Service Life:** 25 years
  - **Remaining Service Life:** 3 years
  - **Outstanding Conditions:** 0

**Plumbing & Drainage**
- **Mech 03 - Plumbing Distribution**
  - **Location:** Throughout the building.
  - **Description:** Type K copper risers and branch lines of various sizes, with and accessories for the water supply to various appliance components.
  - **Chronological Age:** 24 years
  - **Effective Age:** 24 years
  - **Service Life:** 35 years
  - **Remaining Service Life:** 11 years
  - **Outstanding Conditions:** 0

**Mech 04 - Plumbing Fixtures**
- **Location:** Janitors room.
  - **Description:** Janitors mop sink.
  - **Chronological Age:** 24 years
  - **Effective Age:** 22 years
  - **Service Life:** 25 years
  - **Remaining Service Life:** 3 years
<table>
<thead>
<tr>
<th>Finish</th>
<th>Description</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finish 01</strong></td>
<td>Carpet Flooring</td>
<td>Stairwell.</td>
</tr>
<tr>
<td>Location:</td>
<td></td>
<td>30 oz. cutpile nylon tex</td>
</tr>
<tr>
<td>Description:</td>
<td></td>
<td>border colour schemes,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>undercushion.</td>
</tr>
<tr>
<td>Chronological Age:</td>
<td>11</td>
<td>Effective Age: 9</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Finish 02</strong></td>
<td>Tiled Flooring</td>
<td>Lobby entrance.</td>
</tr>
<tr>
<td>Location:</td>
<td></td>
<td>Ceramic tiles and grout</td>
</tr>
<tr>
<td>Description:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>Chronological Age:</td>
<td>24</td>
<td>Effective Age: 20</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Finish 03</strong></td>
<td>Interior Painting</td>
<td>Corridors, parkade, stair</td>
</tr>
<tr>
<td>Location:</td>
<td></td>
<td>Primers and multiple pig</td>
</tr>
<tr>
<td>Description:</td>
<td></td>
<td>gypsum wallboard, mill.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Chronological Age:</td>
<td>10</td>
<td>Effective Age: 9</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Finish 04</strong></td>
<td>Interior Swing Doors</td>
<td>Stairwell, service room</td>
</tr>
<tr>
<td>Location:</td>
<td></td>
<td>Variety of hollow core,</td>
</tr>
<tr>
<td>Description:</td>
<td></td>
<td>openings, Exterior door</td>
</tr>
<tr>
<td></td>
<td></td>
<td>enclosure system.</td>
</tr>
</tbody>
</table>
Asset Inventory – Site Work

### Site 02: Interlocking Unit Paving
- **Location:** Vehicle access roadway and pedestrian access at north side of building.
- **Description:** Concrete unit pavers, combination of joint filler and jointing sand, bedding sand, compacted gravel base, compacted sub-base.
- **Chronological Age:** 24
- **Service Life:** 40
- **Effective Ages:** 24
- **Remaining Service Life:** 16
- **Outstanding Conditions:** 0

### Site 03: Stone Retaining Walls
- **Location:** Entrance to parking garage.
- **Description:** "Precast stone unit blocks, precast concrete cap; planting soil filter fabric & drain rock; 4" perforated PVC pipe; compacted subgrade."
- **Chronological Age:** 24
- **Service Life:** 90
- **Effective Ages:** 24
- **Remaining Service Life:** 26
- **Outstanding Conditions:** 0

### Site 04: Irrigation Sprinklers
- **Location:** Ground level perimeter of the building; Controller in electrical room.
- **Description:** "LawnMasters controller with network of pipes, backflow preventer valves, and 4" pop-up irrigation heads buried amongst the exterior soft landscaping."
- **Chronological Age:** 12
- **Service Life:** 15
- **Effective Ages:** 11
- **Remaining Service Life:** 4
- **Outstanding Conditions:** 0

### Site 05: Soft Landscaping
- **Location:** At grade around the building.
- **Description:** Various forms of plant material, including lawns, shrubs, flowers, ground covers, hedges and trees. Also considered are growing medium such as top soil.
- **Chronological Age:** 24
- **Service Life:** 40
- **Effective Ages:** 24
- **Remaining Service Life:** 16
They require periodic maintenance...
- Cleaning
- Lubricating
- Adjusting
- Inspecting

They deteriorate over time...
- Cracking
- Staining
- Splintering
- Corroding

They eventually need to be replaced...
- Balcony fascia improvements
- Re-roofing
- Carpet replacement
- Elevator modernization
Impact of Maintenance on the Life of Assets

With maintenance: Diminished service life, Potential service life

Without maintenance: Without maintenance

Condition vs. Time

Diminished service life: With maintenance
Potential service life: Without maintenance
# Service Life, Chronological & Effective Ages

## Encl 04 - Profiled Metal Shingle Roof

<table>
<thead>
<tr>
<th>Location</th>
<th>Main sloped roof area.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Decra Bond metal roof shingles over a membrane underlayment.</td>
</tr>
<tr>
<td>Chronological Age</td>
<td>24</td>
</tr>
<tr>
<td>Effective Age</td>
<td>39</td>
</tr>
<tr>
<td>Service Life</td>
<td>40</td>
</tr>
<tr>
<td>Remaining Service Life</td>
<td>1</td>
</tr>
<tr>
<td>Outstanding Conditions</td>
<td>1</td>
</tr>
</tbody>
</table>

## Stucco Cladding - Face Seal

<table>
<thead>
<tr>
<th>Location</th>
<th>Non-rehabilitated walkway suite walls and chimneys.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Face-sealed stucco applied to protect exterior wall assemblies.</td>
</tr>
<tr>
<td>Chronological Age</td>
<td>24</td>
</tr>
<tr>
<td>Effective Age</td>
<td>13</td>
</tr>
<tr>
<td>Service Life</td>
<td>45</td>
</tr>
<tr>
<td>Remaining Service Life</td>
<td>32</td>
</tr>
<tr>
<td>Outstanding Conditions</td>
<td>0</td>
</tr>
</tbody>
</table>
Service Life, Chronological & Effective Ages
Financial Analysis

- Contingency Reserve Fund
- Cash Flow Models
10-Year Forecast – Major Maintenance & Renewals

- Sliding Glass Doors & Fire enunciator panel
- Roofing & Elevator Controls
- Exterior paint
- Guard rails
Every Building has its Own Pulse – Different Forecasts
Example Building – Funding Models

**ALTERNATE FUNDING #1**
(User defined)
$40/suite/month

**STATUTORY FUNDING**
(min. requirements)
Max $23/suite/month
Example Building – Funding Models

ALTERNATE FUNDING #2
(User defined)
$75/suite/month

ALTERNATE FUNDING #3
(User defined)
$96/suite/month
BAM Software – Review of Funding Models

Alternate #1
$40/mth/unit

Alternate #2
$75/mth/unit

Alternate #3
$96/mth/unit
Legislation mandates a minimum level of funding for the CRF. Based on the value of the operating budget, if the CRF balance is less than 25% of the operating budget, the strata must contribute the lesser of:

1. 10% of the operating budget value

OR

2. Sufficient funds to raise the CRF balance to 25% of the operating budget
Funding Models – Discussion on Minimum Funding

- Operating budget = $60,000
- 25% of operating budget = $15,000
- 10% of operating budget = $6,000
- Current CRF contribution = ???
Other Funding Options

- Alternate monthly contributions?
- Minimum/maximum CRF balances?
- Inflation of contributions?
- Phasing of projects?
- Bundling of projects?
Questions & Discussion