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## Condo Fees:

# Rip-Off or Bargain?

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Exclusive Condominium Services

I recently saw a “man-on-the-street” interview on a newscast, where many of the people being stopped said that condo fees were “just a rip-off”. It occurred to me that a lot of these people didn’t understand what condo fees are about, so I thought that an explanation would be in order.

### Market Lingo

Let’s start by looking at the words used by the folks that market condos in publications like the Condo Guide and Edmonton Home and Condo Living (free publications available at most grocery stores, in street boxes, etc.). Words like “carefree”, “worry free” and my personal favorite, “maintenance free”, jump out at me. Since these are the terms commonly used to market condos, I suspect that many of the people who buy a condominium unit do so because of the supposition that they are buying property that will actually be “carefree”, “worry free” and “maintenance free”. But, what do these words really mean? Is anything carefree, worry free or maintenance free?

In most cases, buying property is the single biggest investment a person will make in their lifetime. Can this really be carefree or worry free? I don’t think that carefree means free of costs, because if you aren’t caring or worrying, that means someone else has to care and worry for you, and that will likely cost you some money.

What kind of property would be “maintenance free”? Granted, some of the products that are used to clad buildings are longer lasting and require less maintenance than others – but they aren’t maintenance free. Let’s use vinyl and wood siding for example. Wood siding requires frequent staining that costs a lot of money, which vinyl siding does not. However, if a vinyl siding panel blew off or someone was to spray paint words or pictures on vinyl siding, the condo corporation would have to pay to repair or change the affected siding panels. Sometimes, after a few years of baking in the sun, the vinyl siding has faded and color matching is no longer possible, which could result in a whole wall of siding having to be replaced. In any event, suffice it to say that there is no such thing as “maintenance free”.

I think that by using the word “free” after words like care, worry and maintenance, people start to hear only “free” and assume that means “cost free” as well.

### What is a Condo?

Next, we have to determine what a condo is, and there is a piece of provincial legislation, the Condominium Property Act of Alberta, RSA 2000 (throughout this article referred to as the Act), to help us figure it out. A condo, under section 25 (1) of the Act, is a “Corporation”. That word in itself makes me think of business, so I wasn’t surprised to discover while reading the Act that many of the principles used by business also apply to condominium.

When people say they are “buying a condo”, they usually don’t mean that they are buying the entire property and every “thing” on the entire site. They usually mean that they are buying a piece of the property, which is defined by section 1 (y) of the Act as a “unit”. A unit is either a space contained within a building, or a space of land on the entire property (bare land).

Condominium units have unit factors (section 1 (z) of the Act) assigned to them by the original developer, and are usually based loosely on the square footage of each unit. These unit factors represent each unit’s share of ownership in the common property. Common property is defined under section 1 (f) of the Act, as property that is not contained in the units.

Section 25 (2) of the Act says that a condominium Corporation consists of all the owners of units in the parcel,

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meaning that all the owners combined form the Corporation. In other words, all the owners together are business partners, and the business consists of controlling, managing and administering the property.

## Condo Responsibilities

According to the Act, every condominium Corporation has duties and obligations. These duties, to name just a few, include:

- Section 37 (1) - enforcement of the condo Bylaws and the control, management and administration of any real property or personal property of the corporation and the common property;
- Section 37 (2) – keep any real or personal property of the corporation and the common property in a state of good and serviceable repair and properly maintained;
- Section 38 – establish and maintain a capital replacement reserve fund for the repair or replacement of real or personal property of the corporation or the common property that does not occur annually; and
- Section 47 – obtain and maintain insurance on the units and/or the common property depending on the type of condominium development – bare land condominium corporations may have different insurance requirements specified in the condo bylaws.

## What are Condo Fees?

Section 39 of the Act states that every owner of a condominium unit is required to pay their proportionate share of the expenses of the Corporation that they collectively form. Condo fees are determined, based on a budget or an estimate of expenses, and levied on the units based on either the unit factor of the unit or a different basis as defined in the corporation's bylaws.

## What is Paid by Condo Fees?

Condo fees for each corporation vary, because each fee is based on the needs of each particular corporation. Some condo fees include utilities, some don't. Some condo fees may include landscaping and snow removal, other won't. The only way to determine what is included in the condo fee of any condo corporation is to look at the budget and financial statements. Condo fees could include such things as insurance, management, grounds keeping, snow removal, maintenance & repair, utilities, etc.

Unfortunately, condo fees are used by purchasers to gauge the affordability of a property – unfortunate because condo fees could have absolutely nothing to do with affordability in reality. A condo fee that is too low may attract buyers, but often those buyers are unaware of some significant costs looming in the near future. A condo fee that is too high will likely not attract buyers. The condo fee could be high because of some unexpected expense, or may be indicative of improper planning in the past (condo fees too low for too long), which has resulted in the current owners having to “catch up”. If owners in projects with high condo fees are looking to sell, they will usually have to discount their selling price.

*Condo fees are simply a way for a group of people to pay expenses collectively rather than individually.*

In many of these cases, depending on how large the group is, it will often result in volume discounts, meaning each owner of a condo unit pays less than a single-family homeowner would have to for the same type of maintenance and repair. Items, such as roofing, can be cheaper for a condo unit owner than for a single-family homeowner either because more people live under one roof and share the costs, or in a town house setting, because of volume discounts for so many new shingles being purchased and installed at the same time.

Many single-family homeowners do the work themselves, where most condo unit owners pay for someone to do the work. If single-family homeowners were to put a value to the time they spend doing the work themselves, it would probably be worth far more than the prices paid by most condo owners through their condo fees. Most of the time, there are also some checks and balances that go along with the added costs when paying someone else to do the work.

I have examined, in some detail, six of the major expenses that are often included in condo fees, from the perspective of affordability, to determine whether condo fees are a rip-off or if they are a bargain.

## Lawn Care

Most single-family homeowners cut their own grass, and if they do, they will save money over a condo unit owner. However, if they were to put a value to their time, would they be saving money?

Some single-family homeowners hire a neighbor's kid to cut their lawn for \$20 a cut. Even if condo owners pay an equivalent amount of \$20 per unit for each cut for the lawn care professional that is hired by the corporation, condo owners usually have the peace of mind that comes with knowing that the person hired to cut the grass is qualified and usually carries their own liability insurance and WCB coverage. I shudder to think what the cost to the single-family homeowner would be if that neighbor's kid got hurt?

## Insurance

Insurance is another big expense often covered by condo fees. In traditionally developed condos, property insurance on the building(s) as it was originally constructed is included in condo fees. Some condo bylaws also specify that improvements to the units be also covered as part of the corporate insurance policy. Owners of condominium units in bare land projects are cautioned that these examples may or may not be true for bare land developments, so those owners are advised to check their own condo bylaws.

According to Dawn Mitchell, FCIP, CRM, CAIB, ACCI, a professional Insurance Broker with Phoenix Insurance Group, the average condo owner saves approximately \$200.00 per year over a single-family homeowner. Dawn compared her own homeowner's policy to that of a similarly valued condominium unit in a traditionally developed condo project. She found that adding the cost of both the property and liability coverage obtained by the condo, and paid for by owners through their condo fees, to the cost of content, improvements and personal liability coverage in a unit owner policy, and paid for by each owner individually, the savings were obvious.

In addition, Dawn also states that the corporate policy for condominiums has significantly higher liability coverage limits than single-family homeowner policies, and includes earthquake and flood coverage, which isn't available to single-family homeowners.

## Management

Condominium and/or property management is another big expense covered by condo fees for a number of condominium communities. Condominium and/or property management is a service where the manager or management company does some of the "caring" and "worrying" for the owners and allows for at least some of the "carefree" and "worry free" living that many purchased their unit to get. However, condo owners do have to collectively pay for the service.

Qualified management personnel will have expertise in the various building systems, business practices and procedures, bylaw enforcement, etc. Most management professionals have a wide network of available and qualified people, enabling them to help the corporation find the right people for the right job at the right price at the right time. That network will include, for example: lawyers, engineers, grounds keepers, insurance brokers or appraisers, snow removal companies, janitorial services, waste management companies, security personnel, fire & life safety experts, and the list goes on.

Most management companies also offer 24-hour emergency services to the condo owners in the projects they manage. This type of emergency service provides that someone else "cares and worries" in the event of a fire, flood or break-in. I doubt that a 24-hour emergency service would be available or affordable to most single-family homeowners, so they usually have to handle these types of crises themselves.

## Maintenance & Repair

A single-family homeowner can allow his/her home to devalue if he/she chooses not to repair their home in a timely manner. For example, a single-family homeowner can sleep with a pot on his head to catch the leaking water, if their roof has a leak, since only they or their family will be affected by it. Single-family homeowners don't have to cut their grass for weeks/months at a time (or at least until such time as their neighbors complain and the municipal bylaw authority orders them to), again because only they or their family (and neighbors) will be affected.

In condominium however, owners are legislated to a higher standard of care. Condo owners must keep their property in a state of good and serviceable repair and properly maintained, because if they don't, the lives and

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property values of all the other owners could be affected. When properly maintained, the property value of a condo unit or a single-family home is not only preserved, but usually increases over time, depending on market conditions.

Proper maintenance and repair will always cost money, BUT, because of the volume discount, a condo owner's share of the expense to pay a qualified person will likely be less than a single-family homeowner's, who may or may not be qualified to do the work themselves and who may or may not be able to pay a qualified person to do the work.

## Utilities

Utilities are utilities. Whether in a single-family home or a condo unit, everyone on the planet needs water & sewage removal. In northern climates such as Canada, we all need power and heat because of the short, cold days of winter. Power also helps us to run all the electronic gadgets we are so addicted to, like dishwashers, TV's and computers. Waste removal is necessary unless you prefer to live amid your own and other people's garbage.

Whether in a single-family home or a condo, we have to pay for utilities. Condo owners often actually pay less per unit for utilities than a single-family homeowner because of bulk or commercial usage rates. The savings can be minor or significant depending on the size of the project, but range from \$20 to \$50 per month per unit to that of a comparable sized single family home.

## Reserve Fund Contributions

The reserve fund is a bank account that accumulates funds for future capital repairs. Condo owners often complain about having to contribute to a fund that they may not be around to benefit from. So why would they? They must do so because the Act requires them to.

The concept behind reserve funds is quite simple – everyone who has use of the roof, whether for a week, a month, a year or 10 years, should pay for their share of the replacement cost of the roof – even if the replacement won't happen for years into the future. The same goes for the windows, siding, doors, walkway, driveways, trees, grass, parking lot, etc. All the common property items have aged during your period of ownership; therefore you should pay your fair share towards their eventual replacement cost. I think all property should be bought and sold this way – that way there are rarely unpleasant surprises.

If a single-family homeowner is looking to sell their home and if the roof needs to be replaced, the siding needs paint, the sidewalks are cracked, and the hot water tank is old, it will most definitely be reflected in a reduced selling price. And just because single-family homeowners don't sell part of a bank account when they sell their homes, like condo owners do (reserve fund), single-family homeowners still have to pay for the required repairs by adjusting their selling price.

The same holds true for a condo unit owner looking to sell, because purchasers are entitled to review a long list of documents that will tell them the condition of the different components of the property. If the roof needs to be replaced, the siding needs paint, the sidewalks are cracked, and the hot water tank is old, the condo owner will also get a lower sales price for their home. However, the difference is that if the money to fix those things is in the reserve fund, then the resale value of their unit shouldn't be as negatively affected.

In most cases, condominium property that is properly maintained, or where the reserve fund holds sufficient funds to cover the costs of the things that need to be done, not only retains its value, but also increases it. Often, the return in property value for every dollar invested into the property or reserve fund nets each owner \$1.05 to \$1.10 or higher – depending on the housing market. Where else can you make 5% to 10% interest on an investment today?

## Conclusion

So are condo fees a rip-off? After this exercise, only looking at a few of the major expenses, I personally think that condo fees are actually a real bargain. ✦