

CONDO LIVING

Guarantees against condo fee increases don't last forever



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If you are thinking of purchasing a preconstruction condominium unit and have recently spoken to a sales representative, you might have been told that the monthly maintenance fees are guaranteed.

This fact is true but there are some important additional facts that you need should know in consideration of that purchase.

The Condominium Act of Ontario does give protection to purchasers of a new condominium unit, but that guarantee is not forever.

In fact, the fees that you are quoted are only guaranteed for the first year of the condominium's existence. In other words when budgeting your monthly carrying costs (mortgage payments, taxes and condominium fees), you can only be assured that the condo fees will be stable for the first year after the registration.

When a brand new condominium is built, the builder must include a first year budget as part of the disclosure to the potential purchasers.

This budget includes the anticipated costs to operate the corporation for the first year after registration. Often this budget is done years before construction has actually started. This is the same budget that is used to calculate the condominium fees for each unit based on the ownership percentage in the corporation's declaration.

Therefore the Condominium Act of Ontario mandates that if the builder's budget is not sufficient and the condominium corporation has to spend more on operations in its first year, the builder must repay that "deficit" to the condominium.

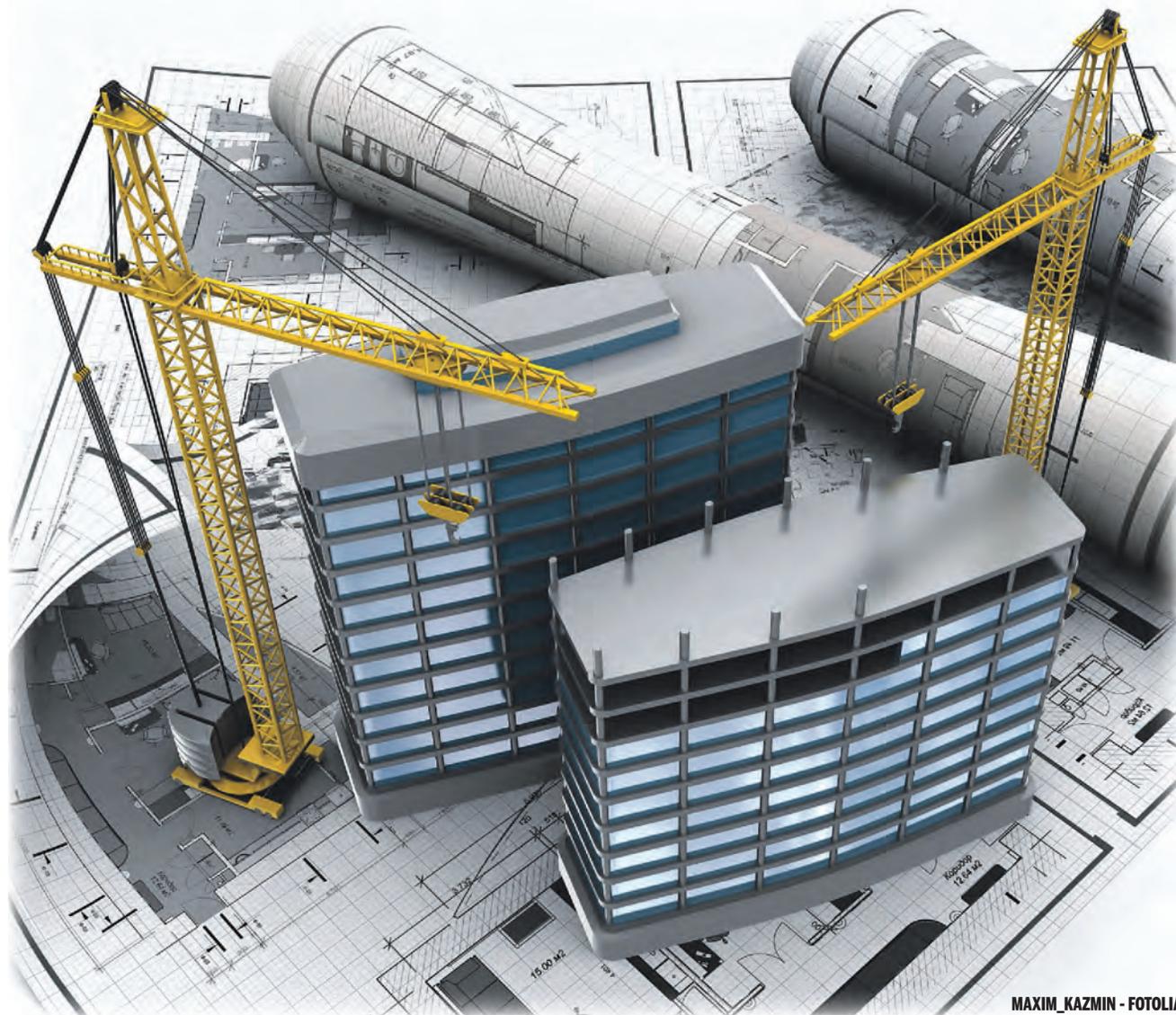
In essence after repayment the owners would be returned to break even at the end of year one. However what happens in year two and every other year thereafter?

In each subsequent year any deficit is borne by the owners as the builder is no longer responsible. So if there was a deficit in year one, the board of directors will likely have to increase the monthly maintenance fees to account for the higher than anticipated costs to operate the building.

Over the years I have seen modest increases however I have also seen very large increases of 20 or 30 percent in year two and sometimes even larger than that. How many individuals in this economy could afford an unbudgeted increase of that nature when buying a new home?

There are many reasons that a condominium can have a first year deficit and quite often it is due to utilities being over budget.

It is very hard to predict the cost of gas, hydro and water before a building is completed. Utility rates often increase without much notice and the budget may have been prepared many years before



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completion of the building.

As well there are often other expenses such as service contracts that do not exist in the first year due to manufacturer warranties however they have to be included in the second year budget that is prepared by the new board of directors.

So what you can do about this potential issue is do your homework. While you are choosing a new condominium unit to purchase, do some investigating into the builder's past experience with budgeting for new condominium buildings.

Ask if the builder has completed previous buildings and inquire into how accurate their first year budget was. Does this builder use an experienced management company or other consultant to help prepare the budget?

You can also ask someone who has experience in the condominium industry to have a look at the budget for their opinion on the accuracy of the budget. You can also compare the budgeted condominium fees for your new

unit against other condo fees in the area, but this can be tricky as you have to choose another building with similar amenities, age and size of unit.

Educate yourself as much as possible before making the commitment. Seek as much advice as you can so that you are not faced with a potentially significant increase in your monthly fees if the first year budget proves to be insufficient. This would turn out to be a very unfortunate surprise!

In my next article I will discuss how reserve fund requirements are causing large increases in monthly condominium fees in Ontario today.

— Stephen Chesney is a chartered accountant and a partner in the firm Parker Garber & Chestney Chartered Accountants and is a specialist in the field of condominiums. The firm acts as auditors for more than 350 condominium corporations in Ontario.