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I am thinking of purchasing a condominium. If I go ahead with the purchase, what exactly am I buying?



A condominium or “condo” is not a particular type of building, but rather it defines a type of home ownership. A condominium could describe a dwelling in a high-rise building, townhouse complex, or detached home. A condo owner will usually own the interior portion of an individual dwelling unit (sometimes called a strata lot or exclusive portion), as well as a stake in the condominium corporation.

A condominium corporation is a specially registered company that has an elected board of directors made up of both condo owners and sometimes non-owners. A condo corporation typically retains the services of a property management company to manage the day-to-day activities of the condo corporation, however, some condos are

self-managed. The condo corporation is responsible for managing and making decisions on all aspects of the rules specifically created for the condo as well as the shared “common element” items on the property that are not part of what is defined as the individual dwelling unit. Common elements may include common hallways, driveways, parking areas, walkways, gardens, and lawns. In some cases, structural and mechanical elements, both interior and exterior, may be included. Depending on the style of the complex, some elements may or may not be included in the definition of the dwelling unit. For example, in some condos, the dwelling unit owner is only responsible for the interior of the unit. In this case, the windows, doors, roof, foundation, exterior structure, and building materials are

considered common elements. In other condominiums, the dwelling unit includes the entire building (if it's a detached home or townhouse), the interior and exterior, as well as a small parcel of land, while the common elements in this setup may include landscaping, a pool, walkways, and parking lots that are shared with the other members of the condominium corporation. It is important to understand that the rules and details of the defined common elements for each condominium corporation are different. Costs to maintain and repair or replace common element components are usually the responsibility of the corporation, while aspects of the actual dwelling unit are the responsibility of the individual owner.

I understand that I have to pay a monthly fee to the condominium corporation. How is the fee determined and where does it go?

The attraction for most people of purchasing a condominium unit is that at least some, if not all, of the exterior maintenance and major repair items associated with the common elements are the shared responsibility of the condominium corporation. Members (the owners) pay a portion of the upkeep through monthly condo fees. Some condominiums also enforce the “look” of individual dwelling units by limiting and defining rules for everything from the exterior paint colours used, to the type of blinds that can be installed. These rules are usually created when the condominium is formed and can be amended from time to time by the

condominium owners as a group.

The potential negative aspect of owning a condo is that each owner has to conform with the decisions made regarding the day-to-day condo rules and common elements agreed to by the board of directors and/or the majority of the member owners.

Since each dwelling unit owner is also the part owner of the common elements, the money required to maintain/repair/replace comes from the owners themselves in the form of a monthly condo fee. Each dwelling unit or strata owner typically pays a fee relative to the size of their unit, since a larger dwelling unit represents a larger portion of the repair/maintenance items. The money is collected and is placed in a bank account or invested. The funds may be self-managed by the condominium corporation, or a property management company may be hired to control the funds, as well as the associated budgeting activities. Snow removal, garbage disposal, and landscaping are examples of some of the maintenance items the condo fees may also pay for. In some cases, property taxes, domestic water supply, electricity usage for common element lighting, property management fees, and maintenance person salaries are also paid with condo fees. The monthly contribution is typically determined by the board of directors based on the projected required expenditures. The monthly fees will change from time to time, usually annually, based on many factors. These range from larger-than-normal snow falls, to the group of owners' desire to enhance the quality of landscaping around the property.

A portion of the monies is also directed into a "reserve fund" that is used by the condominium corporation to perform major repairs or replacements. The

reserve fund, in most cases, cannot be used for regular maintenance items or unforeseen expenses. The completion of a periodic and comprehensive reserve fund study is mandatory in some provinces, and is typically performed by a qualified engineering company for the condominium corporation. This study will determine the projected costs for repairs/upgrades and the amount of money required on a monthly basis from each dwelling unit owner to ensure adequate funds are available, when major renovations are required. The study takes into consideration the condition of the common elements at the time the study is performed and the approximate replacement time and cost. The study should be regularly updated to reflect changing costs and conditions. In the rare case that the corporation experiences a budget shortfall due to an unexpected major repair or cost increase, the individual unit owners may be required to pay a portion of the shortfall as an extra lump sum payment (i.e. special assessment) or as an increase to their monthly condo fees for a period of time, based on their percentage ownership in the corporation. This is why obtaining information regarding the condominiums financial situation is so important during the due diligence process, when purchasing a condo.

In addition to an available reserve fund study, prior to purchasing a condominium, a copy of the corporation's status (or estoppel) certificate should be obtained and reviewed by a lawyer or notary. The status certificate contains information including, but not limited to the condo fees for the particular unit, whether the current owner has a balance owing on their fees, the amount in the reserve fund for the condo, information regarding any upcoming special assessments, and whether the corporation is being sued.

In some cases there may be a small fee associated with obtaining the status certificate. A copy of the condominium's rules and bylaws should also be obtained and reviewed in detail, prior to purchasing a condominium unit. The bylaws will vary between condominiums and may include restrictions on pets, noise, and even whether the dwelling unit can be leased or rented. If not understood prior to purchase, these rules could create unforeseen surprises after the purchase is complete.

Do I really need to have the condominium inspected prior to purchase?

As mentioned above, a condominium is a building like any other home that has repair and maintenance requirements. A qualified home inspector will give you information regarding the condition of the dwelling unit and its major systems which may include some or all of the heating, electrical, plumbing systems, exterior components, and the building structure. As well, some home inspectors will review the common elements of the condominium to ensure that the maintenance has been satisfactory and to alert the potential purchaser to any major repairs or replacements that will be necessary in the near future. A deteriorated common element such as the roof will mean that a large portion of the money that has been saved in the reserve fund will soon be required. It's very important that sufficient funds are available in the reserve fund to pay for this and other large expenses.

To speak with a certified and trained AmeriSpec home inspector, contact us today.

1 (866) 284-6010 info@amerispec.ca

