Reserve Fund Planning

Best-practice Report

Why are Unit Quantities and Costs Required?

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Components – Why are Unit Quantities and Costs Required?

1. What are They and Why do they Matter?

Unit quantities and costs are used to measure the building components that make-up a development's common assets – think of how much vinyl siding is on the exterior walls or how many interior metal service doors there are?

These are important to know because they are needed to determine the current replacement cost of each component – the square footage of vinyl siding is determined and applied to a cost per square foot to determine the current replacement cost.

Many clients find that their depreciation reports do not include this information – whether completed by engineers, Certified Reserve Planners (CRPs), building technologists, home inspectors or others. This is a serious issue with legal implications.

Most owners, when reading a value of $3,000 for the current replacement cost of vinyl siding – without knowing how many square feet or what unit cost was used – cannot determine if the estimate is reasonable. Without unit quantities or costs, strata council members, owners and buyers cannot understand the rationale used for establishing current replacement costs.

An astute reader with time on their hands may know from experience that the vinyl siding is perhaps $8.00 per square foot and deduce that the building has 16,000 square feet of cladding, but this roundabout way to calculate quantities is not necessary and very time-consuming. Most readers do not have the knowledge or time to infer numbers and the time to verify the calculations for all the components.

Certainly, many strata corporations are ordering depreciation reports simply to make potential buyers happy, but for the buyers, the problem is serious: a strata council member or an owner can have access to interiors and measure the quantity of interior metal doors but buyers must accept the numbers on good faith.

Most readers do not have the time to work out the numbers and thus to verify the calculations for reserve fund components. Depreciation reports that do not include unit quantities and realistic costs have insufficient data for most clients to adequately understand the recommendations.

2. What Current Standards are to be Followed by Writers?

The Real Estate Institute of Canada (REIC)'s depreciation report specific Technical Bulletins (2000: 5) is very clear:

> All factual information, observed on inspection and taken off the building plans, should be presented, as these data are used in the cost estimates and reserve calculations…Every reserve component must be described and quantified…and the area of the (component) must be provided…The cost of every reserve component must be provided in terms of unit costs, such as sq. ft., sq. m. linear ft…

Over 75 percent of British Columbia's Certified Reserve Planners (CRPs) are Appraisal Institute of Canada (AIC) members. AIC members who produce depreciation reports with their professional member designation must follow the Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP).

In April 2014 the AIC updated its reserve fund planning standards to include the following on depreciation reports:

> 13.11 Describe and Analyze all Relevant Data
>
> The reserve fund planner must take reasonable steps to ensure that the information and analyses provided are sufficient for the client and intended users to adequately understand the rationale for the opinion and conclusions.

Both associations stress that quantities and costs used for each component are to be provided in depreciation reports.

Engineers, technologists, home inspectors, and other report writers that are not governed by the REIC may have other standards or agendas, but condo | strata boards | councils need to ensure that unit quantities and costs are available in their report.

Understanding a report on a sound basis and being able to compare a report to another is therefore recognised.

Stakeholders who choose to ensure that depreciation reports include unit quantities and costs get added-value. This information can be used when dealing with trades and engineers to verify the quantities represented in quotes. Property Manager can thus review quotes with more confidence during the tender process for major repairs or replacements.

3. Why are Providers, Property Managers and Clients Taking the Risk of Omission?

Condo | strata boards | councils, property managers and report writers that condone the omission of unit quantities and costs may also be limiting themselves. Long term financial planning requires high quality data that can be understood over time and all the time.

There are three (3) main reasons why not providing unit quantities and costs is happening:

SOME REASONS BEHIND OMITTING QUANTITIES AND COSTS

- **The providers are doing this for a business reason:**
  They do not want a competitor to use their numbers in three years, when a new depreciation report is required by the SPA. They want to make getting the next report so expensive that the client has to return to them. How long before providers are taken to the soon to be functional Civil Resolution Tribunal?

- **The writers are inexperienced and think that contractors will provide the quantities and costs:**
  They may not know how to read plans or are overwhelmed by the task of digitizing plans and doing quantity take-offs. It is fair to assume that if a writer is idle in one part of the report, that this will show throughout the rest of the report. While poorly constructed reports will eventually mean that providers are no longer in the field, all stakeholders are affected.

- **The writers are not certain of their numbers:**
  They may rely on guesstimates, unsupported numbers or use a contingency amount. Strata corporations hire reserve fund planners to help plan for the future – if a consultant is not sure of the numbers or is inferring costs from other reports or sources, then how reliable are the numbers?

Having a report with too many arbitrary figures means that instead of including a replacement value for a component – requiring a 50 percent vote, a provider is inputting a contingency amount – requiring a 75 percent vote, should anything happen, whether on an annual basis, in a few years or within the multi-year projection, rather than an allowance over the economic life of the development.

In proper reserve fund planning, allowances are not accounted for as expenditures in the projection shown in the scenarios, but they are set in the benchmark analysis over the life of the development and included in the reserve fund requirement amount that is adjusted every fiscal-year in the scenarios.

Wittingly or not, the erroneous practices evoked above skew expenditures and interfere with the anticipated monies that strata corporations need in their reserve fund.

In many cases special levies may be required later, when the cost of the replacements occur. In other words, not basing the report on unit quantities and costs defeats the purpose of the report since the financial analysis is flawed and not usable.

Readers of such work will lose confidence in the report and thus not follow recommendations with regard to increases in regular contributions or the draw of special contributions.

Buyers may not invest in the development as the provided long-term reserve fund financial plan does not make sense to them.

4. In Summary

It is up to condo | strata boards | councils to ensure that they get the value they are excepted to get for the owners. A depreciation report that omits unit quantities and does not meet current standards.

Having the ability to understand and update the costing of each component in a benchmark inventory is one of the most fundamental contributions of best-practice reserve fund planning.

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