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Condo Connection

The WB Condo Connection is a newsletter intended to highlight Ontario condominium related articles and educational items that may be of interest to Boards of Directors and condo owners.

The second year of our newsletter begins with a feature article outlining what to expect during the first year in a new condominium. We also revisit the upcoming Harmonized Sales Tax (HST) and recent changes approved by the government regarding Reserve Funds.

Our newsletter is published online and available on our website (www.wilsonblanchard.com) as well as in hard copy format to the President of each of our Boards of Directors.

As always, we hope you enjoy this edition and we welcome your comments. Please direct any comments, suggestions or article topic requests by email to newsletter.editor@wilsonblanchard.com or by mail to:

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Prospectus

Expectations & HST Update

By Karen Reynolds & Jeff Lack, Co-Editors

What to Expect in the First Year?? The Condo Edition

By Mike Mullen, B.A., R.C.M.
Manager of Business Development & Training

In preparing to write this article I was brought back to the time when my wife and I were expecting our first child. There was a book on the market, titled “What to expect the First Year”.

There would be no better book for a new Condominium owner than a book that outlined what a new owner should expect in the first year. The first year of ownership in a Condominium is a huge learning curve. You are introduced to a new home with many different rules. There are many words and processes that you have never even heard of before. We will do our best to try to explain, in a short space of time, what you as a new owner should expect in the First Year in your new Condominium. Please note most of the discussion to follow pertains to a Standard Condominium Corporation and although we make reference to “building” this could apply to either a

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town home or high-rise. There may be differences in some of the requirements for other types of Condominiums.

The Condominium Act requires that Condominium units be constructed to a substantial level of completion prior to registration of the Condominium. Title to the units cannot be transferred until the Condominium is registered with Land and Titles. There are therefore two types of closings in this scenario.

The **interim closing** occurs at the time of occupancy (when purchasers move in) and the final closing occurs after the registration of the Condominium. Upon receipt of the occupancy permit, the Developer begins to move residents into the building. This is usually from top to bottom or first floor up. As the people start to move into the building the interim closing or occupancy period begins.

During the occupancy period, the buyer undertakes a portion of the Developer’s mortgage with the lending institution. This is sometimes referred to as a Phantom Mortgage and is equivalent to the proportionate share of the overall condo.

The occupancy fee is made up of three components:

1) interest calculated on a monthly basis on the unpaid balance of the purchase price (rate protected by the Condominium Act),
2) monthly maintenance fee for each unit,
3) factor for property tax.

In total, payments will be close to the amount that you would pay for a mortgage for the entire purchase price. As there is no title to the units at this time, a mortgage cannot be obtained. As a result, the occupancy fee paid is often referred to as rent.

Upon substantial completion of the building and usually when a majority of the residents have moved into the building, the Developer will register the building with Lands and Titles as a Condominium Corporation and start to complete unit closings. This process is known as the **second closing**. Once over 50% of the units have had title transferred, the Developer can call and hold a Turnover Meeting.

The **Turnover Meeting** is a transfer of control from the Developer named Board of Directors to the Board of Directors comprised of owners who own the units and, in most cases, reside in the building. Records, warranties, drawings, and the Corporate Seal are all handed over to the Board of Directors usually via the Property Manager.

The Board is now controlled by the owners who live in the building and the work is just starting for this soon to be busy group of volunteers.

In the first year the Board of Directors must have a **Performance Audit** completed. This audit is a review of the common elements of the building and is mandatory under the Condominium Act 1998 and the Ontario New Home Warranty Program, now known as TARION.

This audit identifies and reports any major problems and deficiencies with the common elements of the Corporation within one year of the registration of the Condominium. The Performance Audit must specify deficiencies such as incomplete or poor workmanship, Ontario Building Code infractions, and/or issues that make

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the building unfit for occupancy, such as mould, construction and structural defects.

The unit owners participate in this process by completing a questionnaire identifying any problems with the common elements including issues that may or may not be linked to their units.

The audit must be filed with TARION, prior to the one year anniversary of the registration of the Condominium Corporation and a copy also mailed to the Developer. As this first year warranty filing is so critical, the audit is usually sent by registered mail, courier or in many cases driven right to the TARION office. This audit provides the basis for the one, two and seven year warranties provided by TARION. In many cases the Board has an Engineer provide a second year update to cover any issues that have come up since the initial audit was completed and which would be eligible for the second or seven year warranty inclusions.

The Corporation must also complete a Reserve Fund Study. This study is usually done in conjunction with the Performance Audit and must be completed within the first year. This study is a review of all of the common elements and capital assets of the building and provides anticipated life expectancies and estimated replacement costs, with inflationary increases included.

The Condominium Act states that all Corporations must establish a separate fund to provide for future repairs or replacements of the common elements and assets of the Corporation. This study provides a guideline on how much money should be set aside each year to ensure that there will be funds available when these repairs or replacements need to be completed. By setting aside enough money, future special assessments can be avoided.

Like a new baby, the Condominium Corporation will experience some growing pains during the first twelve months and hopefully we have helped to explain some of the process. We encourage you to contact your Property Manager directly with any additional questions or concerns.

Reserve Fund Update

By Wayne Klem
Director of Property Management (Toronto)

When the Ontario Condominium Act, 1998 was revised in May 2001 one of the revisions was to do with condominium corporation’s reserve funds. One change was that the investment income from the reserve fund is to be retained in the reserve fund. Secondly and most importantly all condominium corporations registered prior to May 5, 2001 were given ten (10) years to top up their reserve fund to ensure adequate funds were available for major repairs and replacement in accordance with their Reserve Fund Study.

Good news, just recently through the combined efforts of ACMO and CCI they have been successful in having the Ontario Government extend the “topping up” deadline. The Ontario Government has decided to increase the ten year requirement to top up the reserve fund to fifteen (15) years from the date of a condominiums first reserve fund for those condominiums registered before May 5, 2001.

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RBC Banking Change

We are pleased to announce that our banking service provider change to Royal Bank has been a success. Our clients can now take advantage of the improved technology that RBC offers while continuing to receive the best daily banking terms offered in the industry.

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This very important change will assist condominiums in overcoming their reserve fund shortfall over an additional five years. This is very timely as the new HST, which comes into effect July 1, 2010, and the current financial climate were going to put a greater burden on all condominiums reserve funds. Condominiums will now have an additional five (5) years in which to gradually top up their reserve fund short fall without considering seeking out additional funds from their owners which would have created a further financial burden on them.