



# Best Practices for Reserve Fund Studies

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By law, condominium corporations in Ontario must obtain a comprehensive reserve fund study report, which is updated every three years. The updated studies alternate between non-site-based updates, and site-based updates where the engineer will re-visit the site to perform a visual inspection of the development. Once the initial comprehensive reserve fund study has been completed, the condominium corporation may alternate indefinitely between non-site based and site-based updates every three years. If there is a major change to the corporation or the common element assets, the board of directors may elect to perform a new comprehensive reserve fund study, but this is not a requirement of the *Condominium Act*.

The purpose of the reserve fund study is to ensure the adequacy of the reserve fund: a special pool of money that the condominium must establish and use solely for major repair and replacement of its common element assets. An adequately

funded reserve fund ensures these assets can be repaired or replaced when required (e.g., replacing a roof, repairing a parking garage, or replacing HVAC equipment). A properly maintained reserve fund means that owners aren't on the hook for sudden large assessments to pay for expected repair or replacement projects.

## Playing as a Team

Reserve fund studies are most effective when prepared by a qualified professional with specific training and experience in the preparation of reserve fund study reports, and who has been provided with accurate and up-to-date information and records about the property in question.

When done properly, reserve fund studies should always be a team effort between the condominium's board of directors, the property manager, and the engineer or reserve fund study provider. The best reserve fund stud-

ies are the result of everybody playing on the same team, sharing relevant information, and clearly communicating intent, because each party brings a unique body of knowledge to the table. The engineer preparing the reserve fund study will perform a visual review of the subject property; however, many conditions will be concealed from view, and engineers don't have the same depth of institutional knowledge as boards and management. Likewise, boards and management have a better handle on the property's repair priorities and management style, which will in turn inform how the reserve fund study is prepared.

For example, based on size, materials and model, an engineer might know how long a building's hot water tank is expected to last and how much it will cost to replace, but it is the manager who will know the maintenance history of the tank and whether the domestic water supply system has experienced any problems

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that might affect the life expectancy of the tank. The board of directors knows their own tolerance for risk and standards for replacement (i.e., wait until the component fails, or perform preventative maintenance and/or replacement). All of this information must be combined to best predict what repairs or replacements the condominium will face in the future and ensure that the reserve fund is adequately funded to cover these costs.

### Peering into the Future

The intent of a reserve fund study is to look at the entire life span of a condominium development and its components. Aside from the interior structure of the building, which will last precisely as long as the life span of the building, every single other component or system will be replaced or repaired, at some point.

In the first 25 years of a development's life, components like site work (e.g., asphalt pavement), roofs (i.e., shingles and flashings), interior finishes, and sealants (caulking) will likely require replacement. Around the 25- to 30-year mark, flat roofs, waterproofing membranes, and many mechanical systems will likely need replacement. Beyond the 30-year mark, components like water and electrical distribution infrastructure, structural concrete (e.g., balcony and parking garage slabs) will all need repair or replacement.

It is the job of the engineer preparing the reserve fund study to ensure that everything that might have to be replaced is accounted for. This is why, despite the current *Condominium Act* regulations mandating a minimum 30-year component inventory and cash flow analysis, the current industry best practice is to examine expenditures over a 40- or even 50-year period. This is because 30 years is too short a period of time to fully capture the life span of many of the materials used in construction – especially those that will be the most expensive to repair or replace. It is important that these costly repair and replacement projects are captured by the study, even if costs 40 or 50 years out cannot be predicted with great accuracy.

For example, modern highrise condominium building envelopes will be constructed with either precast concrete cladding, or an aluminum and glass window-wall system. Both exterior clad-

ding systems will last longer than 30 years, if properly maintained, yet will likely still require full replacement or significant retrofit within the first 50 years of the building's life. This is true of many of a condominium's most costly-to-repair assets, such as structural concrete repairs in underground parking garages, or for townhouse condominiums, repair or replacement of underground distribution infrastructure, such as the watermain.

When a reserve fund study is prepared with a 30-year component inventory, it can “hide” these expensive items beyond the horizon of the cash flow projection. While this might seem appealing to those purchasing new condominiums, as the condominium ages these “hidden” expenses will start appearing in updated reserve fund studies. This in turn will lead to sudden shocks in the reserve fund cash flow, necessitating large contribution increases or special assessments to make up the difference – the very thing that the *Condominium Act* aims to avoid by requiring a reserve fund.

By hiring experienced professionals like architects and engineers with specific training and experience in the preparation of reserve fund study reports, these types of situations can be minimized or altogether avoided. ■



**BEST Consultants**  
**Martin Gerskup**  
Architect Inc. was founded in 1992 and specializes in the field of building

science; specifically, the investigation and repair of buildings and structures, the preparation of building surveys, and reserve fund studies. Martin Gerskup, the founder of BEST, is an experienced architect who has spent 35 years carrying out research in the field of building science, with emphasis on condominium developments.



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preparation of building condition assessments and reserve fund study reports.