



# LONG-TERM FINANCIAL PLANNING

## Taking the Right Approach to Reserve Fund Studies

If there's one guarantee in condo property management, it's that nothing lasts forever. Over time, equipment will fail, assets will wear down, and vital systems will eventually need replacing. While there's no avoiding the inevitable, there are tools to help condo stakeholders prepare for these big-ticket expenses.

And topping the list, says Philip Sarvinis with RJC Engineers, are reserve fund studies: "In terms of long-term planning and avoiding financial surprises, there are few things more important than taking the right approach to your reserve fund planning."

Taking that right approach begins with understanding the true function of reserve fund study. By definition, these studies are long-term financial planning tools that take a snapshot of a property in present time, assess what will need repairing or replacing over the next few decades, and inform

corporations as to what funds they need to be putting aside on a monthly basis in order to cover those future capital costs.

For example, says Sarvinis, “Elevators have a certain life expectancy, assuming they are well maintained. In a reserve fund study, you take that value of what it will cost to replace your elevators at the end of that life expectancy and program it into that projected year. So, when the time comes time to address the elevators, you’ve already funded for that expenditure and there are no surprises.”

What a reserve fund study is not, however, is a yearly rundown of “to-do” purchases. Just because an item is listed in a particular year for repair or replacement doesn’t mean it needs to be addressed in that year.

“It’s not meant to be a shopping list,” says Sarvinis, explaining, “A lot of owners think that since they have all these repairs listed in year 26, that they have to go out and spend all this money in year 26. That’s not how a reserve fund study should be interpreted. Instead, it’s there to remind condo owners when those repairs might be needed and to make sure money is being carried forward for that time period so that funds are in place when that work is actually required.”

Prior to any given large expenditure, the element should be assessed to determine if repairs or replacement is warranted or if there are additional years of service available.

“It’s very important to do reserve fund studies right, because the last thing you want to do is have a reserve fund that’s underfunded and, five years from now, discover that you

have to specially assess everyone. That’s typically not a popular choice with the rest of the ownership and having special assessments can make a property hard to sell.”

#### AIMING FOR ACCURACY

There are other common misconceptions and mistakes condo stakeholders make when it comes to reserve fund planning. One is failing to identify the proper lifespan of the equipment, while another is underestimating the real cost of fixing or replacing it down the road. Therefore, while the law dictates that reserve fund studies must be done every three years, it is far more advantageous to conduct them on a more consistent basis to ensure anticipated prices and market conditions are as accurate as possible.

“Doing reserve fund studies, or at least the capital planning portion, more often makes the most sense,” agrees Sarvinis. “When you consider inflation, yearly changes in labour rates, and other economic conditions, your financial commitments are going to change sooner than every three years. You want to be as accurate as possible when it is time to present the study to the rest of the ownership.”

#### A COORDINATED, “BIG PICTURE” APPROACH

A more coordinated approach to reserve fund planning can also help save time and money. Future work on an exterior component of the building, for example, can be scheduled alongside upgrades to

windows or building envelope repairs so as to avoid extra expenses associated with labour and project mobilization.

Reversely, replacing exterior caulking in year 22 to only go back in year 24 later and replace the windows can result in wasted work, extra set-up expenses, and added labour costs.

“If you can think about what things actually work together and what can be done together, there’s a lot of savings to be had,” notes Sarvinis.

Certainly, reserve fund studies require a calculated, knowledgeable, and “big picture” approach. Here’s where partnering with outside professionals to bring the experience, expertise, and foresight necessary to create accurate reserve fund studies and – perhaps more importantly – do what needs to be done.

“A reserve fund study is just one part of what we do; the other part is actually implementing what is in the reserve fund. That’s where having experience from doing 100-plus similar projects a year can bring greater accuracy and detail to the reserve fund study,” says Sarvinis.

There are no crystal balls in condo property management. With the right approach to reserve fund studies, stakeholders can better predict future expenses and plan accordingly. ■

Philip Sarvinis is Managing Principal of Building Science and Restoration with RJC Engineers, Toronto. Learn more about RJC’s Building Science practice at [rjc.ca](http://rjc.ca).



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