

Depreciation Report Survey Findings and Analysis

Prepared for Real Estate Institute of Canada - Greater Vancouver Chapter



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Introduction and Summary

Crux Group was hired by the Real Estate Institute of Canada – Greater Vancouver Chapter in August 2016 to conduct a survey of all identified firms and qualified consultants providing depreciation report services, which includes members of the Real Estate Institute of Canada – Greater Vancouver Chapter. The survey was designed in September and fielded in October, with the survey closing on November 14, 2016. The intent of the research is to scope out what percentage of BC-based strata corporations have completed depreciation reports and to collect details/trends on these reports where available.

Sixty-five service providers were identified by the Real Estate Institute of Canada – Greater Vancouver Chapter and the success metrics for the project were to reach the 16 largest service providers (as specified by the Real Estate Institute of Canada – Greater Vancouver Chapter) and at least 30% of the remaining providers. Fourteen of the 16 largest providers completed the survey. One did not complete the survey and another declined to participate. Sixty seven percent of the remaining service providers completed the survey, for a sample size of 47 firms. We believe this to be a representative sample of the industry representing, roughly 80% of the market.

OUR FINDINGS

Our findings are detailed in the sections below. Individual responses are not included to respect the privacy of the firms that provided the data. All open-ended responses are summarized with analysis in this report. The questions asked in the survey are attached to this report as an appendix.

METHODOLOGY

The survey was distributed via an online link and service providers (pre-identified by the Real Estate Institute of Canada – Greater Vancouver Chapter) were contacted via phone and/or e-mail up to three times to encourage them to complete the survey.



Joanne Lacroix



Aaron Cruikshank



Louise Marion

About Crux Group

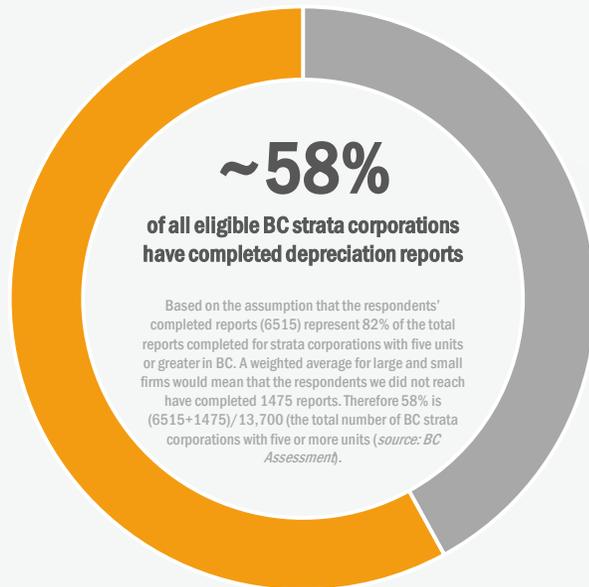
Crux Group is a management consulting co-operative based in Vancouver and Chicago with no ties to REIC or any of the member companies. Our researchers include former VPs from Ipsos Reid and we have over 20 years of cumulative experience in research. We came together in 2016 to form Crux Group because we believe there are too few management consulting options in the market with world-class delivery at reasonable prices. We work integrally with our clients, get quickly to the crux of our clients' challenges and opportunities – and deliver exceptional value.

The project was led by Aaron Cruikshank, Managing Partner. Joanne Lacroix, Managing Partner, was the Project Manager for the field research component and Louise Marion carried out the field research by contacting service providers and convincing them to fill out the survey.



High-Level Findings

Based on a high-level scan of the data collected from the survey. Detailed findings available on subsequent slides.



The Firms

The majority of the service providers in this space are small providers with one to five employees. The ten largest firms represent 64% of the declared depreciation reports by those responding to the survey.

Size of Contingency Reserve Fund per Unit

Most strata corporations have a contingency reserve fund per unit of \$1,000 - \$2,000 – not adequate to meet the estimated contingency fund needs identified by the depreciation reports in most cases.

Feedback from Service Providers

SUMMARY

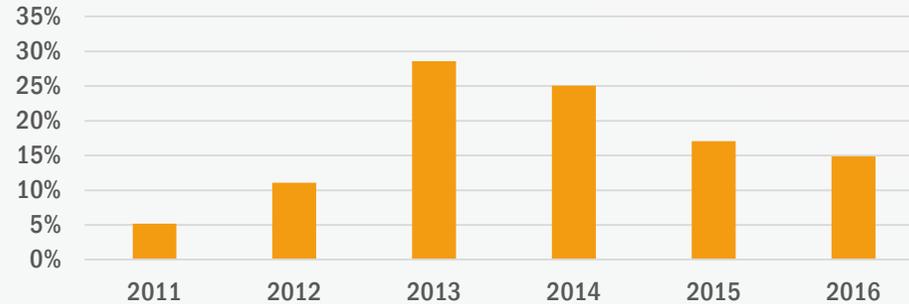
- Many strata corporations suffer from sticker shock when they see how much a depreciation report costs.
- Many strata corporations vote to reject the report because if the recommendations are implemented, it typically increases strata corporation fees significantly and they are worried it will depreciate their home values.
- Those strata corporations that do accept the reports often do not act on the recommendations, or at least not to the extent recommended in the depreciation report.
- Strata corporations want more input into the final report and would like to see a draft report before it is finalized.
- There is much controversy around the regulatory environment from which the need for depreciation reports emerge. Examples in other jurisdictions are cited as being more constructive for the industry.

Number of Depreciation Reports Completed

FINDINGS



Year Depreciation Reports Completed



Total Number of Depreciation Reports Completed by Respondents: **6515**

In the summary slide, we estimate this means roughly 58%* of strata corporations have completed depreciation reports. What this figure doesn't inform the reader of is how many of them ultimately acted on the recommendations in that report. This is not the kind of information that most service providers collect.

We do see the number of reports completed peaking in 2013, after the legislation was introduced in 2011. The total number of completed reports appears to be dropping in subsequent years – possibly because they are not perceived to be actionable, enforceable or necessary by the strata corporations receiving them.

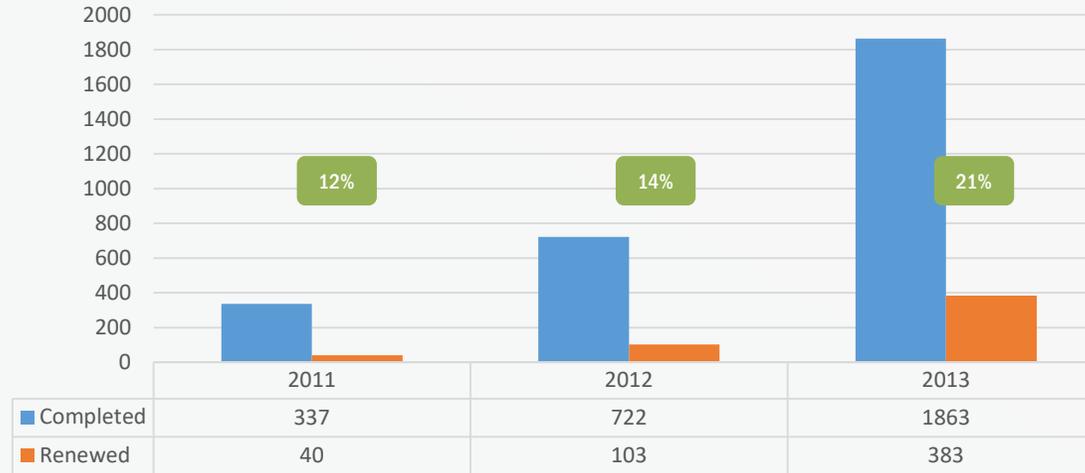
*Based on the assumption that the respondents' completed reports (6515) represent 82% of the total reports completed for strata corporations with five units or greater in BC. A weighted average for large and small firms would mean that the respondents we did not reach have completed 1475 reports. Therefore 58% is $(6515+1475)/13,700$ (the total number of BC strata corporations with five or more units)

Depreciation Reports Renewals

FINDINGS



Completed vs Renewed



Total Number of Current Depreciation Reports in BC:
5025*



Renewal Rates Are Increasing

One key piece of information this data provides is that renewal rates are increasing. This is likely because of a combination of the following factors:

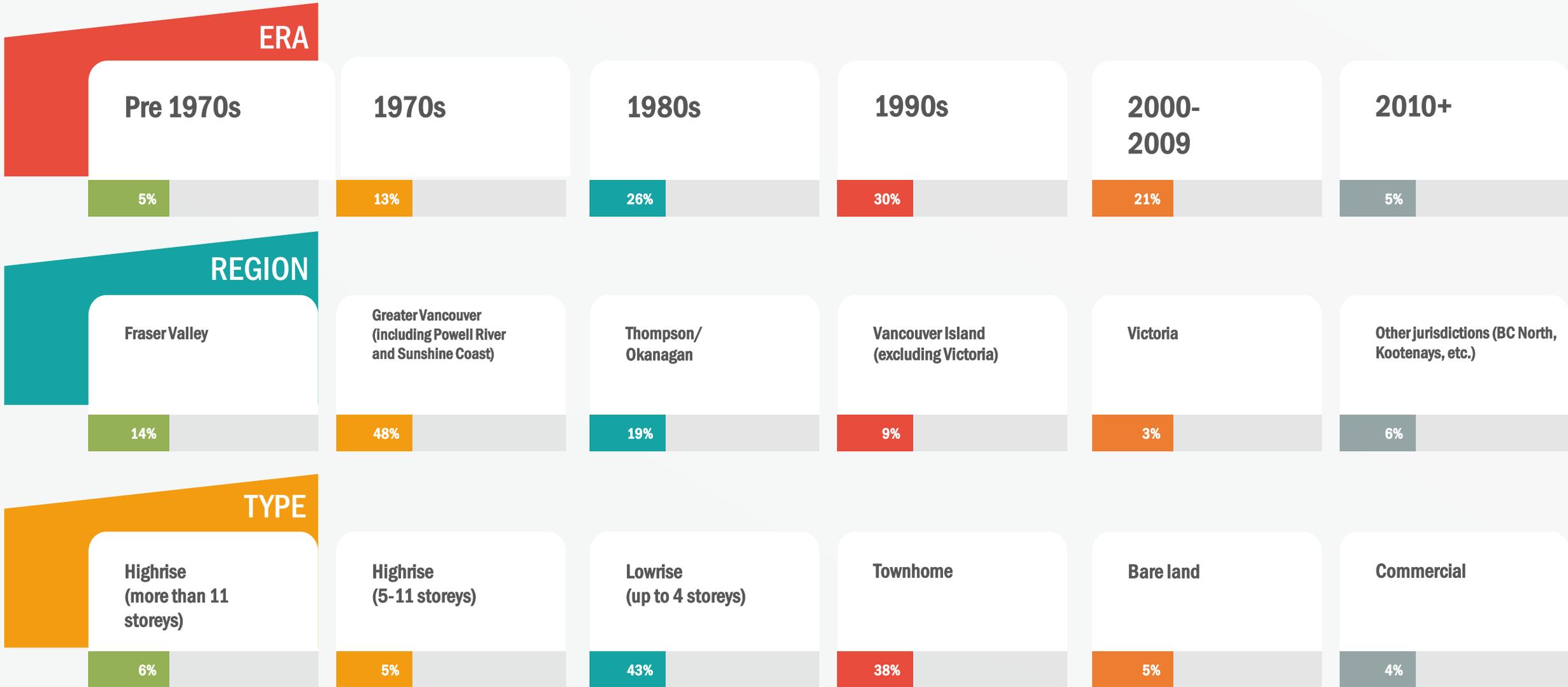
1. Strata corporations that were early adopters of the first depreciation reports may be less likely to renew while strata corporations who opted to do the depreciation reports later benefitted from more experienced service providers.
2. As more strata corporations complete depreciation reports, the market pressure to update depreciation reports will increase as buyers and sellers request copies of these report.
3. Strata corporations are increasingly seeing the utility/value of these reports as more of them are done.

One would expect to see the renewal rate increase every year until it approaches 100%.

** number was determined based on the total number of current depreciation reports (4119- total completed less those not renewed in 2011, 2012 and 2013) * 1.22.*

Property Characteristics

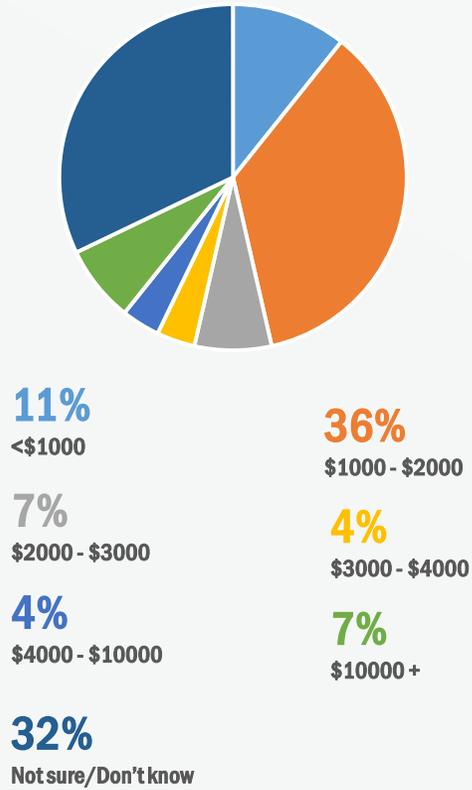
These tables break down the properties that have completed depreciation reports by era built, geographic region and building type.



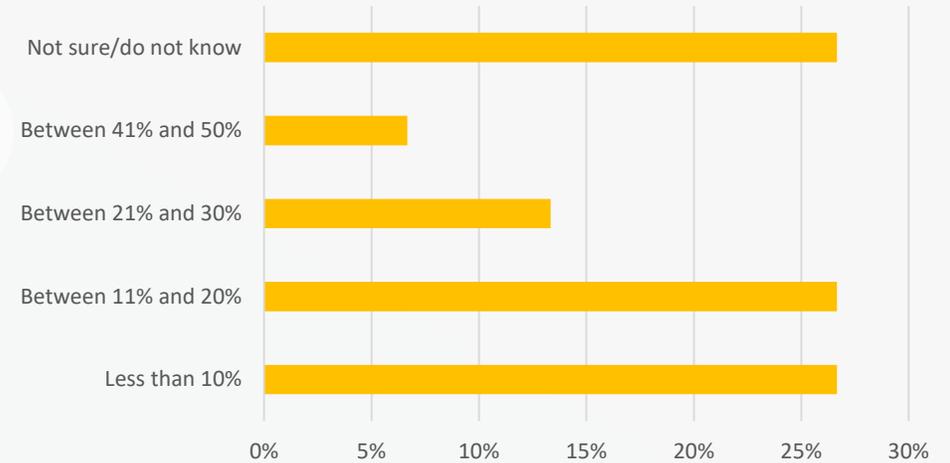
After the Reports

The survey touched on a number of issues arising once the depreciation report is complete.

Average amount in each strata corporation's contingency reserve fund per unit



Average amount funded as a % of full or ideal funding



79% of service providers calculate an ideal full funding amount and therefore can determine at what % funded each strata corporation is when they prepare their depreciation reports

Thank You

CONTACT INFORMATION

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In summary....

We believe that we have arrived at a reasonable estimate of the number of depreciation reports completed as a subset of all strata corporations in British Columbia.

Additional insights show that while the renewal rate for depreciation reports is increasing, there is still some resistance from strata corporations to completing these reports.

1. Do you currently (or have in the past) prepare depreciation reports?
2. How many employees does your firm have?
3. Between January 2011 and today, how many depreciation reports did your firm complete?
4. What are the most common objections you get from strata corporation/management company clients who request depreciation report quotes?
5. Why do they not order the depreciation reports once they discuss?
6. What are the most common objections from strata corporations/management companies after the depreciation report is completed and received?
7. Of all the depreciation reports completed to date, how many were completed in 2011?
8. Of all the depreciation reports completed to date, how many were completed in 2012?
9. Of all the depreciation reports completed to date, how many were completed in 2013?
10. Of all the depreciation reports completed to date, how many were completed in 2014?
11. Of all the depreciation reports completed to date, how many were completed in 2015?
12. Of all the depreciation reports completed to date, how many were completed in 2016?
13. Number of renewals ordered for reports completed in 2011.
14. Number of renewals ordered for reports completed in 2012.
15. Number of renewals ordered for reports completed in 2013.
16. Number of strata corporations inspected from the following eras:
 1. Pre 1970s
 2. 1970s
 3. 1980s
 4. 1990s
 5. 2000-2009
 6. 2010+
17. Number of strata corporations inspected from the following regions:
 1. Fraser Valley
 2. Greater Vancouver (including Powell River and Sunshine Coast)
 3. Thompson/Okanagan
 4. Vancouver Island (excluding Victoria)
 5. Victoria
 6. Other Jurisdictions (BC North, Kootneys, etc)
18. Number of strata corporations inspected by building type:
 1. High-rise (above 11 storeys)
 2. Mid-rise (5 -11 storeys)
 3. Low-rise (up to 4 storeys)
 4. Townhome
 5. Bare Land
 6. Commercial
 7. Other/Not Sure
19. For all of the first time depreciation reports completed between December 2011 and today, what was the average amount in each strata corporation's contingency reserve fund per unit?
20. When you prepare your depreciation reports, do you calculate an ideal full funding amount and therefore can determine at what % funded each strata corporation is?
21. For all of the first time depreciation reports completed to date, what was the average amount funded as a % of full funding or ideal funding?