

What to know about fees when buying new

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SPECIAL TO THE STAR

When you first walk into the finished condominium you've bought from plans, the size and shape of the unit might come as a surprise.

The monthly condo fees, though set for the first year in the budget prepared by the developer, can also hold surprises when the second year rolls around.

Recently, we have been seeing large hikes in the monthly fees between year one and year two, and it's important for buyers to understand why these increases are occurring and the protection available under the Condominium Act.

I believe it is even more important to arm yourself with the tools needed to make an educated and informed decision when you buy your new condo in the first place.

The condo fees that are quoted are often derived from a master budget, prepared three or more years before construction starts. Many of the expenses in that budget can change drastically over the years, none more than utility rates.

Gas, hydro and water are often anywhere from one-third to one-half of the total condominium budget. If at the time of purchase, rates (such as hydro and water this year) are on the rise you may want to ask when the budget was set and what utility rates were used.

Service contracts are another area where we see increases after the first year. Many common elements, such as elevators, may have a one-year warranty where the corporation does not have to pay a monthly maintenance fee in the first year. However, beginning in year two, a service contract will most likely be purchased and included in your monthly fees. It's a good idea to ask what items may appear in year two that are not in the first-year budget.

You should also be aware of the hours for certain employees or contracted workers such as security guards and concierge attendants provided for in the first-year budget. Are you expecting security for 24 hours a day, or just certain hours? A difference here can add up to many thousands of dollars in a year.

Now that you have had a detailed look into the budget, it is important to understand that Section 75 of the Condominium Act requires the developer to pay any deficiency that may materialize at the end of the first year after the condo is registered. If the total condo fees collected from the owners, based on the builder's budget, are not enough to pay all of the first year's expenses, then the shortfall must be paid back to the condo corporation by the builder.

Given this law, there is some other homework you should do before making your purchase. Investigate the builder's experience, es-



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pecially with respect to condo construction. Does this builder make a legitimate attempt to create a fair and accurate budget and does he or she have experience in doing so?

If it is a new builder, is he or she using an experienced management company or consultant to create the budget? This information can be especially important if there is a deficit at the end of the first year. Collection of that deficit sometimes becomes a problem, although more experienced builders tend to be aware and often pay this amount promptly on the release of the first year's audited statements.

You can also compare the quoted monthly fees against other buildings in the neighbourhood, but this is a very tricky comparison. You have to compare apples with apples, so look only at another condo with similar number of units as well as similar amenities. For example, don't compare a building with an indoor pool and recreation centre to one with an outdoor pool — the costs are vastly different.

My best advice is to find someone such as an experienced condo lawyer, accountant or consultant who knows this industry. An hour or two of someone's time today may save you the surprise of unexpected increases in monthly fees or other costs in the future.

Even with professional advice there are many unpredictable factors that affect condo fees from the second year onward. Remember quoted fees are only guaranteed for the very first year.

In my next article, I will discuss what to look for if you're considering the purchase of a resale condo in Ontario.

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