Leaky condo crisis rears its head again in B.C.
Buildings that weren't fixed earlier now face even costlier repairs

BY DERRICK PENNER, VANCOUVER SUN  MAY 25, 2014

Evidence of a second wave in British Columbia’s leaky-condo crisis is beginning to emerge, 15 years after the first one subsided.

It is becoming more apparent as condo strata corporations prepare mandated depreciation reports on their buildings. That process is forcing them to own up to the condition of their properties and the shortcomings of maintenance programs for structures that weren’t fixed in the first wave of repairs.

Some are buildings that haven’t started leaking until recently, or that owners patched over instead of repairing their underlying defects.

There are still potentially thousands of faulty units that were built during the so-called “leaky-condo” period — from 1982-99 — which were never repaired, but figures on how many have been fixed are
difficult to come by.

From property records, consultants Dale McClanaghan and Jason Copas counted about 160,000 condo units in 10,350 buildings built during the period when buildings leaked prematurely.

In a 2007 report for the B.C. Homeowner Protection Office, McClanaghan and Copas estimated that 71,600 of those condo units would suffer leaks, and at the rate repairs were being made, between 48,260 and 58,000 would be repaired by the end of 2012.

That would have left between 14,120 and 24,000 left to repair after 2012, although there is no official count of the number of units that have been repaired.

Lax maintenance has been a long-standing issue for stratas, according to Tony Gioventu, executive director of the Condominium Homeowners Association of B.C., “hence the evolution of the introduction of depreciation reports.”

The province made a depreciation report a requirement of the Strata Property Act in 2011. It contains a detailed assessment of a condo building’s condition, and a schedule for when major components, including its exterior, would need repair.

“Depreciation reports are forcing strata corporations to acknowledge what they have, and forcing them into planning (for repairs),” Gioventu said in an interview.

The requirement was enacted in 2011, but wasn’t put in force until last December to give B.C.’s 30,000 strata corporations time to commission the reports.

However, stratas have the option to exempt themselves from the requirement by agreement of three-quarters of their members.

Gioventu said that provision was put in to accommodate commercial-property stratas or strata-ownership arrangements on bare land where owners build their own homes and have no common services.

He said there there is no doubt some older residential strata corporations are exempting themselves because they know a depreciation report is “going to give them an ugly picture,” but the market is going to catch up with those situations when banks refusing financing on sales without the reports.

Gioventu said if there is a common theme, it is that “strata corporations have not been maintaining their buildings,” which is evident in problems that are cropping up with building decks and balconies, roofing systems and windows.

The depreciation reports are coming in almost five years after the province cancelled an interest-free loan program that was put in place and run through the B.C. Homeowner Protection Office, to help cash-strapped homeowners pay for repairs.

The loan program ran for 11 years but was cancelled in 2009, leaving homeowners to finance repairs either on their own or through their strata corporations.

That’s hitting home for a 21-unit condo building in Port Coquitlam, which undertook an inspection report
that revealed a potential $1.5-million repair bill to replace the 27-year-old building’s entire exterior.

Strata council member Cherif Abdallah said in a story on Global News that each owner is looking at paying $71,000, which is putting residents — mostly seniors, but some young families — in a tough spot.

“We’re all at a loss; we don’t know where we’re going to go,” Abdallah said.

Vancouver realtor Lori Antunovic expects to be foreclosed on in her Fairview-area condo because she won’t be able to finance a possible $135,000 assessment for repairs.

Antunovic had a property inspection done before she bought the apartment in an eight-unit strata on Eighth Avenue 19 years ago, “and everybody said it was fine here,” she said.

It wasn’t until about seven years ago, Antunovic said, that she started noticing problems, leaks into her bathroom first, and then the dining room. More leaks became apparent around decks and planter boxes, she said.

“And the exterior stucco just looks like a moss patch,” Antunovic said.

She added that the strata has made spot repairs including new decks and, a couple of years ago replaced the exterior flashing and applied new paint.

“That didn’t fix the problems at all,” Antunovic said, but her assessment to pay for it was $10,000.

Last year, Antunovic said, the strata corporation commissioned an engineering report that recommended replacing the building’s exterior with a rain-screen wall.

“I don’t have any options,” she said. “My options are to list my home and try to get someone else to buy my problem, or find another job that has more stability some time in the next two months.”

James Balderson, a long-time advocate for leaky-condo owners, said the Port Coquitlam condo owners aren’t alone; he still fields about three or four inquiries a month from people dealing with the problem.

“Many are angry with the government for killing the (interest-free) loan program,” said Balderson, who led a group under the name Coalition of Leaky Condo Owners.

“They’re forced into the same situation as before the loan program, whereby they are unable to refinance their condos and raise funds, and strata corporations make efforts to foreclose on them to collect amounts owing.”

Time is against many owners of condos from the so-called leaky period, according to Gioventu.

Condo buildings are defined as leaky when elements of their building exterior fail prematurely, with prematurely meaning in less than 25 years.

“It’s no longer a leaky condo when a building is older than 25 years and it’s been neglected,” Gioventu said, “It’s just a neglected building.”

He said that more than a decade of heightened public awareness around the problem should have
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prompted owners to deal with their problems.

“There was an opportunity, given the time frame, over a 15-year period, to investigate buildings and look at them for maintenance requirements and inspection options,” Gioventu said. “Why didn’t strata corporations do that when they had that opportunity?

“In retrospect, the costs they would have faced would have been marginal, with the no-interest loan program, compared with what they’re facing now,” Gioventu said.

In terms of the number of leaky condos out there, the only figure the Homeowner Protection Office has is that some 16,000 homeowners availed themselves of that interest-free loan program.

It was supported by a $750-per-unit levy applied to new construction, and paid out $670 million in loans during its 11-year span, but was terminated in 2009 during a slowdown in the new construction market.

“My sense is the trajectory (of failures and repairs) didn’t change after 2007,” McClanaghan said. “With the absence of the loans for repair assistance, it likely caused a slower pace of remediation.”

During their work in 2007, the consultants found the average value of interest-free loans had increased to $63,511 per unit from $24,144 in 2000, due to rising construction costs.

However, the government has said it won’t be reviving the plan.

The minister responsible for housing, Rich Coleman, was not available for an interview, but in an emailed statement a representative of the Homeowner Protection Office said they are “not seeing or anticipating a significant increase in ‘leaky condos.’ ”

“The province has no plans to reinstate the reconstruction loan program,” said Wendy Acheson, the HPO vice-president and registrar.

She said leaks “are caused by several factors, including lack of adequate maintenance,” and depreciation reports should help strata corporations determine the costs for looking after their buildings.

However, for buildings in which major problems have been discovered, McClanaghan said, the financial strain posed by construction estimates makes it difficult for strata corporations with problems to obtain the approval of 75 per cent of owners they need to go ahead with special assessments to cover the costs of repairs.

“That probably puts more buildings into limbo where they continue to deteriorate,” McClanaghan said.

Alan Cadwell, a cost-control adviser for strata councils, agrees with McClanaghan on that point.

He built a business, B.C. Condo Advocate, out of advising strata councils how to mitigate the costs of major repairs during the crisis, but his work in this area largely evaporated after the loan program ended.

While buildings from the era are still leaking, Cadwell said, strata councils are choosing to do “targeted repairs” that patch leaks, rather than comprehensive repairs that fix underlying defects, “because they
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simply don’t have the money.”

Contractors are still busy with major condo renovations, said Anton Van Dyk, business development manager for the firm Centra Construction Group, but that is because they are doing more restoration work on older buildings where siding and exteriors have reached the end of their life.

“What we fixed 10 years ago was everything built in the 1980s,” Van Dyk said. “Now, what we tend to fix is everything built in the ’60s.”

Van Dyk worked as a consultant on leaky-condo remediation projects earlier in his career, and saw jobs that were planned and ready to proceed put back on the shelf after the loan program was cancelled “because nobody could get the financing to do the work.”

Cadwell said the interest-free loan program “was a great program,” arguing it didn’t cost much money compared with the amount of construction activity it sparked, and helped a lot of homeowners more easily recover from the huge setback of premature major repairs.

“We were able to fix buildings — comprehensively fix, put good warranties on them for 10 years — values went up and they could sell units and recover their costs,” Cadwell said.

Condo owners have options. If individual owners can’t afford the full amount of special assessments, or can’t finance repairs on their credit, strata corporations can take out loans on behalf of the building.

“In the last two or three years, there has been an increase in the number of lenders that fund these (strata loans),” said Brian Chatfield, president of North-Vancouver-based 1 City Financial Ltd.

TD Bank, Bank of Montreal, Vancity and Blueshore Financial credit unions have joined private lenders in offering the loans, said Chatfield, who brokers such financing as part of his business.

“It’s another option for payment that sometimes helps get resolutions passed so work can take place,” Chatfield said.

Lenders secure the loans against the value of unpaid levies, which the strata corporation has considerable power to collect if an individual owner doesn’t keep up with payments, he said.

The catch, Chatfield said, is that the loans are considered commercial financing, with interest rates that can be higher than “what people are accustomed to on their residential mortgages.”

However, the rates are becoming more competitive as more lenders have entered this market, according to Jeremy Bramwell, president of the appraisal firm Bramwell & Associates Realty Services Ltd., a major provider of depreciation reports to stratas.

Bramwell said another thing the depreciation reports accomplish is forcing strata corporations to confront how well they’ve funded their reserve accounts, which is pertinent to any major repairs their buildings face.

He said it is a constant battle for stratas. The tendency is to keep strata maintenance fees as low as possible, versus building up reserves for major repairs.
In his experience, strata reserve funds average between 10 and 25 per cent of being fully funded.

“The lower (the ratio), the more special assessments you’re going to have, and the higher they’re going to be when they come,” Bramwell said.

Chatfield said arranging for strata borrowing is a challenge, considering that “you are dealing with communities,” and getting 75 per cent of the community members to agree on taking out a loan is still difficult.

“There are some members of the community that are better off than others,” with a mix of older owners who may have considerable resources mixed with first-time buyers without much equity to leverage, he said.

If an owner cannot pay their portion of a loan back, the strata corporation can place a lien on their interest and foreclose on the owner to enforce repayment, Chatfield said. Repayment of the strata loan will have priority, even over the owner’s own mortgage.

Chatfield said he has brokered loans for stratas to cover remediation work for $600,000 to $1 million, but said lenders will also back off when the ratio of a loan to property value is too high, such as $70,000 per unit against units worth $140,000 to $150,000.

“(Lenders) don’t want to be there,” he said, and this remains a “niche” form of lending.

Gioventu said encouraging strata councils to do adequate maintenance work is one of the industry’s challenges regardless of a building’s age. Building exteriors wear out in time and need to be replaced, Gioventu said, and stratas need to prepare for that.

“People think living in strata is cheaper (than living in a house). It’s not cheaper,” Gioventu said. “You don’t need to do as much (maintenance) work because you hire experts (to do it), but it isn’t necessarily cheaper.”

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**Major milestones in B.C.’s leaky condo crisis**

**1995:** The Building Envelope Research Consortium is established through an initiative of Canada Mortgage and Housing Corporation to act as a co-ordinating agency for the research of building envelope problems in B.C.

**1996:** CMHC releases its Survey of Building Envelope Failures in the Coastal Climate of British Columbia.

**1998:** Former B.C. Premier Dave Barrett establishes a commission of inquiry into the quality of condominium construction in B.C. Its 82 recommendations include changes to zoning regulations, building codes, provincial and federal law, financing, contractor licensing, and requirements of design
professionals; and establishment of a compensation fund for reconstruction and a provincial Homeowner Protection Office.

1999: A second Barrett Commission is established following the collapse of the New Home Warranty of British Columbia Inc. Findings recommend 100-per-cent compensation up to $25,000 per unit for repairs, with costs shared equally between the provincial and federal governments and the B.C. condominium construction industry.

2000: The B.C. Assessment Authority announces it will cost $220 million to repair the 14,521 leaky condo units identified in that year’s property assessments.

2000: Housing Minister Jan Pullinger announces new regulations will require contractors to be licensed by the Homeowner Protection Office and to provide third-party warranty insurance to obtain permits for building-envelope repairs.

2001: The B.C. government estimates 65,000 condominium units have suffered water damage that will cost $1.5 billion to repair. Some advocacy groups predict the damage estimates will grow to 90,000 units and $2 billion.

2001: The board of the Greater Vancouver Regional District calls on the two senior levels of government to activate disaster-relief legislation and provide financial assistance to leaky condo owners.

2003: A judge rules that condo owners must hold a meeting and pass a special resolution with three-quarters approval of condo owners before a class-action lawsuit can be started.

2005: Six years after the New Home Warranty came into effect, 100,000 new residences have been brought to market with the warranty insurance attached.

2008: A report by the Homeowner Protection Office states at least 72,000 strata units leaked and suffered water damage, and possibly as many as 87,500 units.

2009: B.C. government scraps the 10-year-old program, which provided interest-free loans of almost $670 million to the owners of 16,000 condos, primarily on the South Coast.

2010: A precedent-setting decision by the Supreme Court of Canada means owners of leaky condos can pursue the general contractor’s insurance policy to try to recoup some of the cost of damages caused by defective construction by subcontractors.

Compiled by Vancouver Sun librarian Kate Bird

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Leaky condo crisis rears its head again in B.C.

The leaky condo situation appears to be rearing its ugly, wet head again, with one estimate of between 14,120 and 24,000 remaining to repair after 2012.

Photograph by: Steve Bosch, VANCOUVER SUN