Saving Condominiums from Financial Ruin

Quantifying the Cost of Early Reserve Fund Underfunding

A white paper by the CCI Ontario Committee to Save Condominiums

November 2026

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1. EXECUTIVE SUMMARY

Reserve fund planners and condominium professionals have long understood that low initial reserve fund contributions, short planning horizons and long phase-in periods allow current condominium owners to contribute less than their fair share to a condominium's reserves. Reserve fund providers have instinctually believed that this transfers contributions and increases the financial burden on future owners. There is a risk that some condominiums may become financially unviable in the mid-to-long term. Until now, however, the industry has generally assessed these decisions one reserve fund study at a time. The Committee to Save Condominiums has developed a new research model that measures the cumulative impact of funding decisions over 20 update cycles, or approximately 60 years, for a given condominium and quantifies the amount that current owners will defer to future owners as a result of their planning approach.

This paper examines how reserve fund contribution decisions made early in a condominium's life can affect future owners and the long-term financial sustainability of the corporation. Using financial modeling of newly constructed condominiums over successive reserve fund study cycles, it evaluates the consequences of low initial contributions, short planning horizons and prolonged phase-in periods. While existing and older condominiums face additional financial challenges, including historical underfunding and uncertainty regarding future capital repairs, the primary focus of this research is preventing these funding problems from being established in new condominiums.

The research confirms that these funding decisions are not neutral. There is a steady-state contribution level that will fully fund the forecasted expenditures with current and future owners contributing equivalently (inflation-adjusted). Funding decisions made early in the life of a building can create a measurable transfer of obligation between generations of owners. Early owners receive the benefit of contributions below the steady-state funding level. Later owners must contribute well above the steady-state share.

This paper uses the model to quantify the impact of three recurring early life funding problems: the inadequate first-year contribution, the use of 30-year planning horizons, and long or repeated phase-in periods. It then considers the compounding effect when these practices are combined, the long-term financial consequences for condominium corporations, and the legislative reforms required to stop the transfer of costs and obligations onto future owners.

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The findings are alarming. In the sample building examined throughout this paper, an initial contribution of $79 per unit per month compares with a steady-state contribution of $320. A 30-year term can leave contributions below steady-state funding for approximately 22 years and require later owners to contribute significantly more than the steady-state benchmark. When a 30-year term is combined with a long exponential phase-in, future contributions rise to $534 per unit per month. Apparent affordability in the early years is therefore achieved by backloading current costs onto future owners.

Reserve funds at many Ontario condominiums are being underfunded, and no legislative steps are being taken to address the issue. If we allow this to perpetuate, we are sacrificing the long-term financial health of condominiums at the altar of short-term affordability. The new research means that the industry can no longer treat that outcome as an abstract future concern: the transfer can now be measured.

Who are we?

This white paper was prepared by the CCI Ontario Committee to Save Condominiums, which is a sub-committee of the CCI Ontario Buildings Committee, on behalf of the eight Ontario Chapters of the Canadian Condominium Institute. CCI is the largest national condominium association dealing exclusively with condominium issues affecting all participants in the condominium community. CCI assists its membership in establishing and operating successful condominium corporations through education, resources, seminars and referrals to expert assistance.

CCI does not represent any one profession or interest group. Rather, it represents all facets of the condominium community, encouraging all interest groups to work together towards one goal.

The Canadian Condominium Institute has eight Chapters in Ontario. If you would like more information about CCI, please visit our national website at cci.ca.

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2. THE PROBLEM: FUNDING DECISIONS MADE EARLY IN A CONDOMINIUM'S LIFE

Reserve fund contribution decisions made during the early years of a condominium can have significant financial consequences for future owners. Low initial contributions, 30-year planning horizons and prolonged phase-in periods may defer the collection of funds needed for major repairs and replacements, creating increasing financial pressure as the building ages.

This paper focuses on quantifying the long-term consequences of these early funding decisions. Other factors, including incomplete capital forecasts, underestimated repair costs and unforeseen deterioration, can also contribute to future financial difficulties but are not the primary subject of this analysis.

When a reserve fund works as intended, every group of owners in a building would contribute their fair share towards the reserve fund. A useful benchmark for determining fair share is a steady-state contribution, which assumes that the forecasts in the first reserve fund study proved to be accurate and that the contribution to the reserve fund would only rise to match predicted inflation each year.

Of course, those forecasts will never be perfect, and buildings will always face unexpected situations that impact the reserve fund. These deviations will cost more than planned, for example:

- when needed to cover the cost of work not anticipated by the study,
- related to periods of unusually high inflation such as the 2021 to 2024 period,
- when components fail earlier than expected; or,
- when components cost more than expected.

As such, all buildings will naturally face some above-inflation increases to reserve fund contributions at reserve fund study updates due to unexpected situations, but these should be reasonable and as a result of unforeseeable events, not “hard-coded” into the system through a legislative loophole.

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As the Ontario system currently operates, the early owners pay significantly less than the steady-state benchmark, meaning that the increases related to unexpected situations compound on top of the hard-coded unfair increases. Later owners must make up the

difference and will be required to pay substantially more than the original steady-state benchmark. The significance of this differential depends predominantly on the approaches taken in the reserve fund process.

The Committee to Save Condominiums was created to bring together reserve fund study providers and other interested parties to understand some of the major contributors to underfunded reserve funds in Ontario. While some issues are clear and visible, others are more nuanced and have been explored by the committee.

To assist in this endeavor, we developed a financial model that allows us to predict the impact of various decisions on future reserve fund contributions by modelling 20 update cycles for a given building dataset. This helps us paint a realistic picture of the hard-coded increases that a corporation will face, in the absence of unexpected situations.

It is important to reiterate that the funding implementation strategies, that are the focus of this paper, are not the only factors contributing to underfunding of reserves. Unforeseen deterioration missed or misunderstood components and unexpected cost spikes will continue to surprise boards. Higher early contributions would reduce, but not eliminate, the need for later increases. Nor is a larger reserve fund free of trade-offs: boards are understandably reluctant to hold large balances in low-yield investments over decades, particularly given typical ownership turnover.

These issues matter, but they don’t diminish the importance of the required changes to the current legislation being discussed in this paper.

3. THE COMMITTEE'S RESEARCH: MEASURING THE DEFERRED COST

The committee developed the model to follow the consequences of funding decisions beyond a single reserve fund study. Datasets of 125 years of forecasted expenditure were provided by participating reserve fund planners in Ontario. For a given building dataset, the model calculates contributions and reserve fund balances through 20 update cycles. It compares those results against a calculated steady-state funding baseline and identifies when owners contribute below steady-state funding and when later owners must contribute above it.

This approach changes the question. It is no longer enough to ask whether a 30-year term plan avoids a negative balance or whether a phase-in makes an increase manageable. The proper question is how much of the current owners' obligation for reserve fund contributions is being deferred, how much more future owners must pay, and whether the reserve fund is financially healthy at the end of the analysis.

Accumulating substantial reserve funds decades in advance may also be seen to carry an economic cost, as contributions are held in restricted, relatively low-yield investments rather than remaining available to individual owners. Boards may understandably question the need to accumulate large balances for projects that may not occur for 30 to 60 years. The need to ensure that a condominium corporation has adequate funds available to maintain their property should outweigh this concern given that many Canadians would spend, rather than invest the additional funds if they did not go into the reserve fund. There is also the issue that the owners of today are not the owners of tomorrow. This analysis does not evaluate the opportunity cost of the low yield investments or alternative reserve funding strategies that might permit condominium reserve funds to achieve higher returns.

When early boards and their reserve fund study providers turn to the Condominium Act for guidance, they are told that funding must be “adequate” without any clarity about what adequate might be. As a result, all boards, with their reserve fund consultants, set out on a path of increasing the contributions over time, following various strategies, rather than jumping directly to the steady-state funding level. Some strategies increase contributions to a reasonable level in short order, perhaps over 6 to 10 years. However, others do everything they can to avoid high increases. As a result, it can be many years before the contributions reach the steady-state funding level. Each year that passes means that a group of owners has contributed less than the steady-state benchmark. This means that future owners will need to contribute significantly more than that to make up for the shortfall from the early years.

Given the long-term nature of the reserve fund expenditures, this underfunding doesn't pose any problem for the first fifteen to twenty-five years of operation. Fees are low and manageable, and no major repairs are needed. Then as the building ages, at some point, fees must start to rise dramatically.

Other than condominiums in converted buildings, the oldest condominiums in Ontario date from 1967. The Condominium Act implies a perpetual service life, as there are no provisions to alter the reserve funding to reflect an "end-of-life" date. So even the earliest condominium buildings are middle-aged at best and certainly not old. Many of these middle-aged condominiums are struggling financially. This does not bode well for older condominiums in the future.

Without a requirement for newer condominiums to achieve steady-state funding, boards and their providers can reduce the impact of required increases on current owners by adjusting the number of years of expenditure they are considering (**Term**) and the number of years over which they phase-in any required increase (**Phase-in**). If this is allowed to continue there is a real risk that we are setting up the condominium industry for long-term failure. Fees will eventually be so high that the value of units themselves will be impacted. Rather than being a long-term store of equity, as has come to be expected of homes in Ontario, condominiums may become a source of equity loss over time.

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Avoiding dealing with this issue now may seem to help affordability, because condominium fees will be lower in the near-term. However, in the long term, we are creating a much worse affordability problem, and potentially a high probability that some condominiums will simply fail and fall into disrepair.

4. EXISTING GUARDRAILS ARE INSUFFICIENT

Currently, the Condominium Act does not provide any material guardrails against underfunding. Adequate funding is a loose term that is not defined in the Act or its regulations, such that any study not showing a negative balance in the next thirty years is likely to be deemed adequate. This is an inadequate test.

In the absence of guidance from the Act, Ontario engineers turned to their regulator, Professional Engineers Ontario (PEO), to provide the practices that a reasonable practitioner should follow. The resulting "Guideline for Engineers Preparing Performance Audits and Reserve Fund Studies", published in 2021, contains recommendations about maximum Phase-in periods and minimum report Terms.

The PEO guideline contains useful guidance about appropriate terms and phase-in periods. However, it was written assuming that the Condominium Act amendments that received royal assent in 2015 would come into force. All amendments related to reserve fund provisions were allowed to expire, unimplemented, on December 31, 2025; as such, the guideline needs to be revised and strengthened to reflect this new reality.

There are currently no meaningful guardrails in place to prevent early boards from sending a condominium down a financially disastrous path.

The Auditor General wrote a report in 2020, "Value-for-Money Audit: Condominium Oversight in Ontario". The authors of that report grasped the significant underfunding of condominium reserve funds and made recommendations for improvement. These included:

- That studies should consider 45 to 60 years of data, rather than the minimum 30-year term allowed for in the Act;
- That first-year reserve fund contributions should be based on a third-party reserve fund study; and,
- That the government should define "adequacy".

The Auditor General's report has been largely ignored by the government.

As such, there are currently no meaningful guardrails in place to prevent early boards from sending a condominium down a financially disastrous path.

5. FINDING ONE: INADEQUATE INITIAL CONTRIBUTION

The builder sets the first-year contribution to the reserve fund by including a line item in the first-year budget for the corporation. If the builder sets the initial contribution materially below the steady-state contribution, the first owners receive an immediate subsidy. Unless that shortfall is corrected quickly, every subsequent year below steady-state funding adds to the amount that later owners must recover.

The origin of, and most significant contributor to, the problem lies with this first-year contribution to the reserve fund. The Act has allowed a contribution to the reserve fund as low as 10% of the operating budget.

> ***Amount of contributions***
>
> *(5) Unless the regulations made under this Act specify otherwise, until the corporation conducts a first reserve fund study and implements a proposed plan under section 94, the total amount of the contributions to the reserve fund shall be the greater of the amount specified in subsection (6)* ***and 10 per cent of the budgeted amount required for contributions to the common expenses exclusive of the reserve fund****. 1998, c. 19, s. 93 (5).*

The extent to which the first-year contributions predictably understate the long-term financial demand of the buildings is shocking.

Since 2001, reserve fund studies have regularly demonstrated that the steady-state contribution is three to four times higher than the first-year contribution set by the builder. This means that purchasers in those new buildings, and their mortgage lenders, have effectively been misled about how much it should cost to live in the building. And it puts the boards in the unenviable position of learning that a significant fee increase is needed. These boards cannot simply increase the contribution to the appropriate/steady-state level in one or two years, because the fee increase would be unmanageable for many owners, who are probably already stretched financially.

To illustrate this concern, Table 1 shows the steady-state funding level required, compared to the actual first-year reserve fund contribution at a sample of new condominiums.

Table 1: Actual vs Steady-State Contributions at a Sample of New Condominiums[1]

Description	First Year Contribution (/unit/month)	Steady-State Contribution (/unit/month)	Increase
188 units, 11 stories, constructed 2023	$79	$320	4 X
58 units, 7 stories, constructed 2024	$98	$441	4.5 X
379 units, 12 stories, constructed 2023	$94	$304	3.2 X
240 units, 19 stories, constructed 2024	$208	$785	3.8 X
15 units, constructed 2025	$50	$190	3.8 X
172 units, constructed 2025	$42	$188	4.5 X
51 units, constructed 2025	$96	$163	1.7 X
182 units, constructed 2025	$71	$242	3.4 X
216 units, constructed 2022	$176	$642	3.6 X
572 units, constructed 2020	$52	$301	5.8 X
489 units, constructed 2024	$139	$304	2.2 X
210 units, constructed 2020	$55	$283	5.1 X
26 units, 4 stories, constructed 2024, very high-end units	$637	$1,917	3 X

If the 10% minimum requirement were removed from the Act and replaced with a requirement to set a contribution as determined by a reserve fund study based on the drawings, then first year contributions would be higher from the start. This information would be available to purchasers and mortgage lenders, and the marketplace could stabilize based on this new, but more correct, reality.

For this approach to be successful, those first reserve fund studies, prepared for the declarant, must be representative. That is, they must:

- consider 60 years of forecasted spending,
- allow only inflation-matched contribution increases, and
- reflect the cost of work in an occupied building, which is significantly higher than the cost of the original installation of those same components[2].

[1] The fair, or steady-state contribution is the first-year contribution that would be required so that future contributions only increase by inflation, based on a 60-year analysis window/term.
[2] For example, installing a window-wall system or piping in an unoccupied concrete frame is much less costly than removing and replacing that same system when the building is fully occupied and fitted out.

6. FINDING TWO: SHORT PLANNING HORIZONS CONCEAL FUTURE COSTS

The model demonstrates that a short planning horizon does more than omit distant projects from the first study. It delays the collection of contributions for those projects until they enter the rolling window, allowing early owners to use part of the components' service lives without paying a proportionate share of replacement costs.

The Act requires the reserve fund study provider to develop a component inventory of common elements and assets of the corporation that are expected to require major repair or replacement within "at least 30 years of the date of the study".

> ***27.*** *In sections 28 to 33,*
>
> *"component inventory" means an inventory, in a reserve fund study of a corporation, of each item of the common elements and assets of the corporation that requires, or is expected to require* ***within at least 30 years of the date of the study****, major repair or replacement where the cost of replacement is not less than $500. O. Reg. 48/01, s. 27; O. Reg. 383/12, s. 3; O. Reg. 180/17, s. 27 (2).*

A 30-year term is not long enough, particularly for new condominiums.

In its simplest description, a reserve fund study sums the predicted expenditures and averages them over the analysis period to determine an annual contribution, taking into account the impact of predicted inflation and interest.

There is very little capital spending in the first twenty years of the life of a condominium, because all the common elements and assets are new. When a study only looks forward 30 years, this 30-year term includes 20 low-spending years followed by 10 years of higher spending. This paints a false picture of the long-term spending.

Many components have a service life that is longer than thirty years (balcony guards, generator, garage roof deck waterproofing, electrical systems, some piping, and windows, for example). As such, a 30-year study does not capture all the common elements and assets; it only budgets for some of them. As 3-year updates are performed and as the 30-year window marches forward, these longer service life components eventually fall into the term of the study, and this creates very significant fee increases at the time of those updates.

To illustrate this concern, consider window replacement (or major refurbishment) which is the largest cost in most studies, and can usually be expected, in a high-rise, to occur after 40 to 50 years of service. If this major window project is captured in the first study, then the corporation will have the full 40 or 50 years to fund the project. If only 30 years of expenditure are considered, then this project will not start to be funded until the

corporation is potentially 20 years old. The contribution increase that is required when the project enters the analysis term would be shockingly large.

This is not exclusive to one project though, and when you examine the fee increases study over study as the more costly years come into the planning horizon, the deviation from steady-state funding becomes clear. The first study, using a 30-year term, would show contributions rising from $79 to about $213 and then staying there (see Figure 1). But this is not the truth because the study gets updated every three years, and the term extends out at each update, capturing more and larger projects.

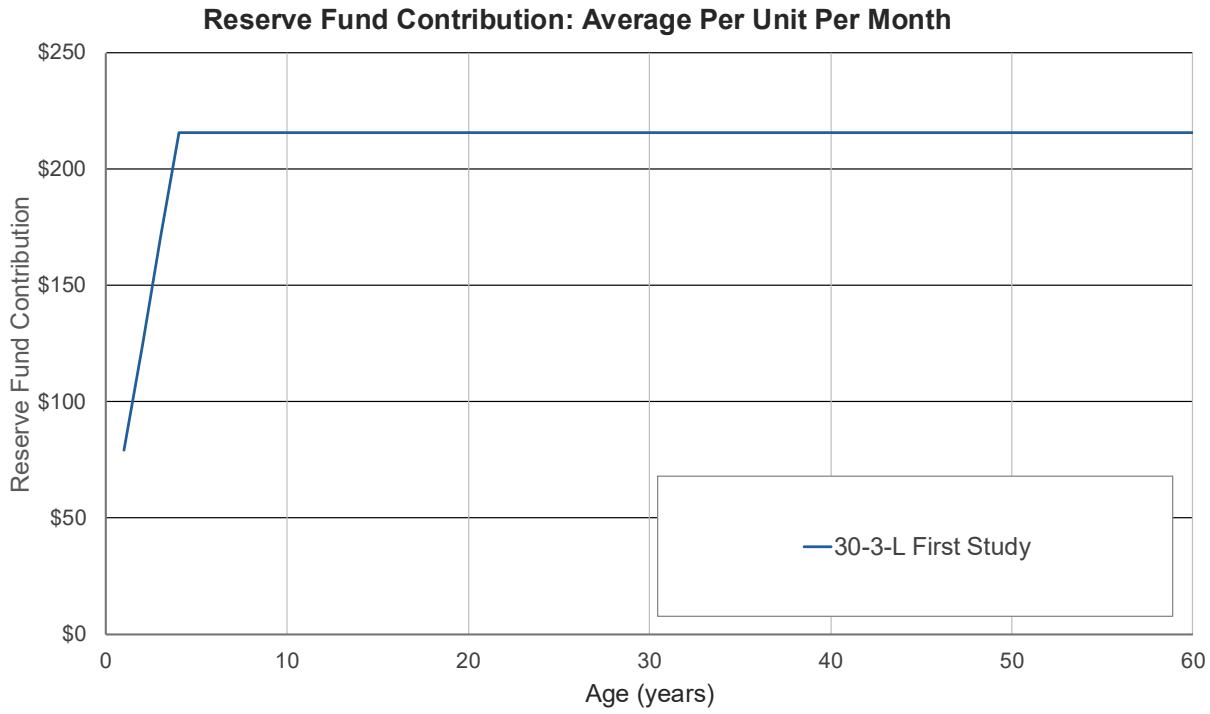

Figure 1 - Results of First Year Study with 30-Year Term

Figure 2 illustrates the impact of using a 30-year report term but modelling the first 20 update cycles for the building (60 years). That is, what if all the boards over time at this building decide to only look forward 30 years at each update?

To simplify the graphs in a manner that does not affect the analysis, this undertaking assumes that there is no cost inflation, and that interest rates are 1% above inflation for the 60-year period. In this way, the high dollars in the future are in today's dollars.

In this graph, the green line illustrates the steady-state funding level, at $320/unit/month. The orange line, which shows the path followed when using a 30-year report term, starts at the contribution set by the builder, $79/unit/month, and shows how contributions remain

below the steady-state level until the building is about 22 years old. After that time, contributions need to be about $403, or 26% higher than the steady-state contribution level.

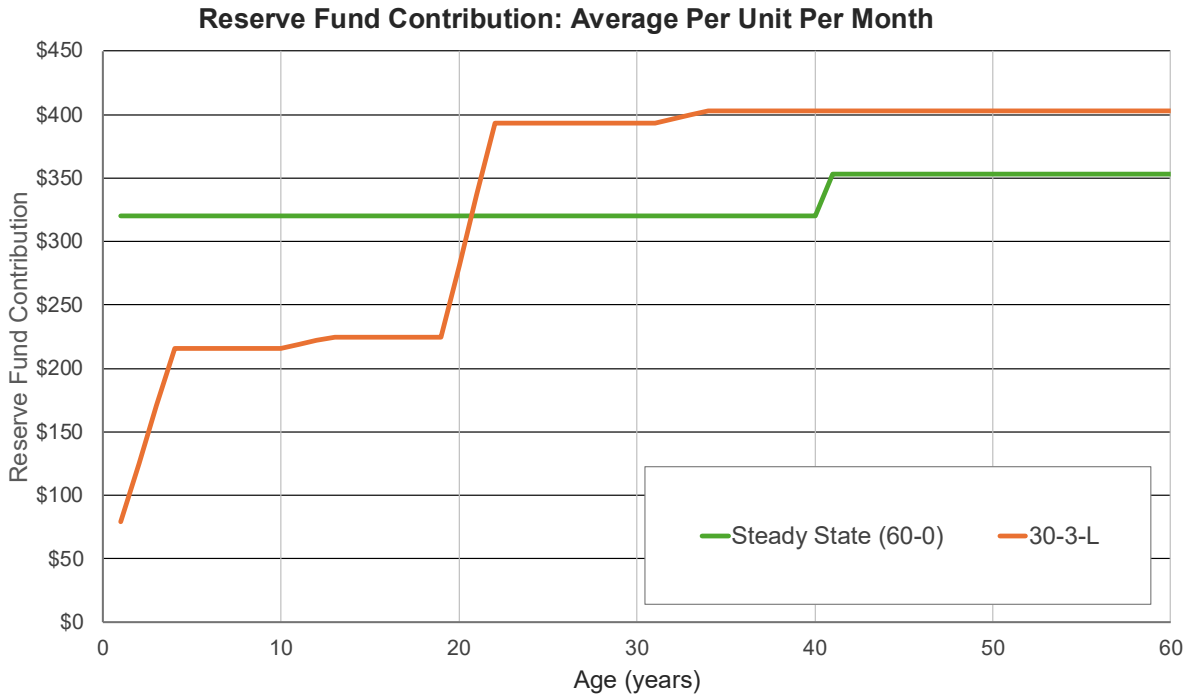

Figure 2 - The Same Building as Figure 1 Modelling the Impact of the 30-Year Term after 20 Updates[3]

Allowing reserve fund study planners and early year boards to only consider 30 years of data means that future owners will pay significantly more than the steady-state benchmark. Just as current owners don't wish to face steep fee increases now, we can presume that those future owners will also not want to contribute at such high levels, but we are currently encouraging early owners to make these poor decisions by allowing declarants to launch condominiums with first year contributions that are far too low.

[3] The steady-state contribution can step up slightly over time. This is a result of the analysis dropping out the first 20 years where spending is quite low and being influenced more by later years when spending is high. For the purposes of this report, we have used the steady-state contribution of $320/unit/month needed for the first 40 years.

7. FINDING THREE: PHASE-IN PERIODS EXTEND THE SUBSIDY

Another tool that boards and reserve fund planners use to avoid increasing to the steady-state funding level is to phase in the required increase over a long period. Again, the Act provides no explicit guidance on this, simply providing that the funding must be adequate or sufficient.

> ***Same, after first reserve fund study***
>
> *(6) The total amount of the contributions to the reserve fund after the time period specified in subsection (5) shall be the amount that* ***is reasonably expected to provide sufficient funds*** *for the major repair and replacement of the common elements and assets of the corporation, calculated on the basis of the expected repair and replacement costs and the life expectancy of the common elements and assets of the corporation. 1998, c. 19, s. 93 (6).*
>
> ***Reserve fund study***
>
> ***94*** *(1) The corporation shall conduct periodic studies to determine whether the amount of money in the reserve fund and the* ***amount of contributions collected by the corporation are adequate to provide for the expected costs*** *of major repair and replacement of the common elements and assets of the corporation. 1998, c. 19, s. 94 (1).*

The model now quantifies the consequence: the longer or more backloaded the phase-in, the larger the subsidy received by early owners and the greater the burden left for later owners.

To illustrate the impact of a long phase-in period, we could consider two different phase-in periods using our sample building. In this case, we will assume that the corporation recognized the need to use a long term to capture all the longer-term repair and replacement projects. This is shown in Figure 3. Here, the green line still shows the steady-state funding level, at $320/unit/month. The blue line shows what happens if the first study allows a 6-year phase-in period, and all future studies use a 3-year phase-in period, which is the strategy recommended in the PEO guideline. This scenario results in some higher funding, starting in about year forty, at $361/unit/month. However, if a 10-year phase-in period is used at each update (per the purple line), future owners contribute up to $386/unit/month, with excess contributions starting in about year twenty.

Used in isolation, a longer phase-in period has a lesser relative impact on future contributions than using a 30-year term, but it still results in future owners paying more than the steady-state benchmark.

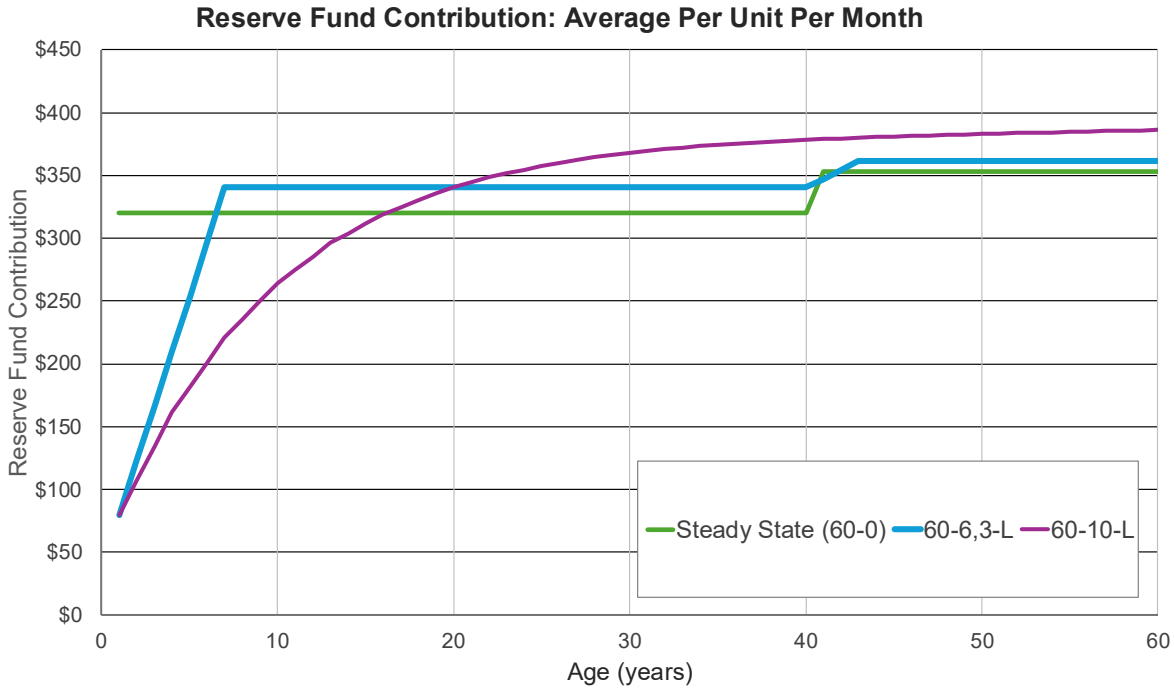

Figure 3 - Impact of Phase-in Period on Contributions

The model used in Figure 3 demonstrates a linear increase during the phase-in period. That is, the annual increase during each year of the phase-in period is an equal dollar amount. Many providers use exponential increases instead, meaning a steady percentage increase each year. This makes things even worse, because less of the required increase is taken before each subsequent update. In this case, the 60-year term study, with a 10-year phase-in period, with exponential growth, results in future contributions getting to $422/unit/month, as shown by the red line in Figure 4.

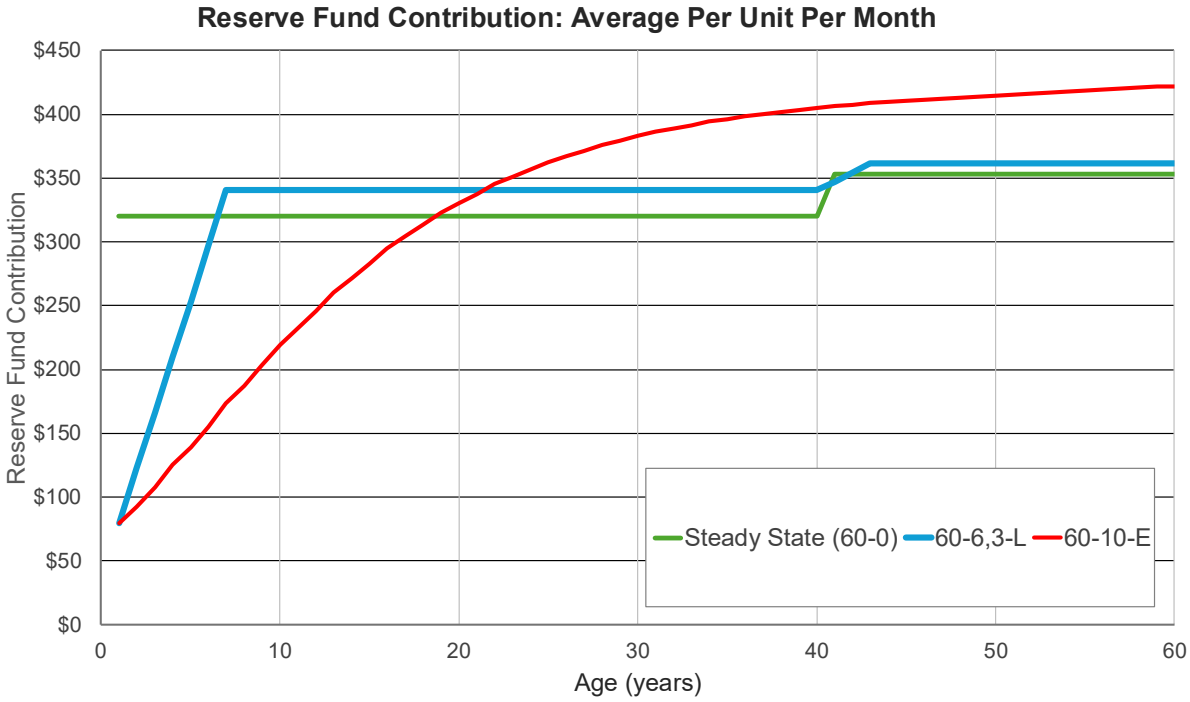

Figure 4 - Impact of Exponential Phase-in Periods

8. FINDING FOUR: THE COMPOUNDING EFFECT OF COMBINED DECISIONS

The most serious outcome occurs when poor funding decisions are combined. A low initial contribution creates the deficit; a short planning horizon delays recognition of major costs, and a long exponential phase-in delays collection of reserve funds. Each assumption may appear manageable when viewed in isolation. Together, they produce a predictable and severe transfer of costs onto future owners.

Current owners are likely struggling to face a 10% increase in contributions, but they are sentencing future owners to much higher increases.

There is nothing stopping the early boards, who started with an artificially low initial contribution, from using a short, 30-year report term **and** a long, exponential phase-in period. It is not uncommon in Ontario to see reports with a 30-year term, where the increase is phased in over 10 or more years (per Figure 5). Using these assumptions, future owners, in the worst year, would contribute $534/unit/month. Remember that this is in today's dollars and can be compared directly to the $320/unit/month steady-state funding amount, and the first year $79/unit/month contribution (see Figure 5). Current owners are likely struggling to face a 10% increase in contributions, but they are sentencing future owners to much higher contributions.

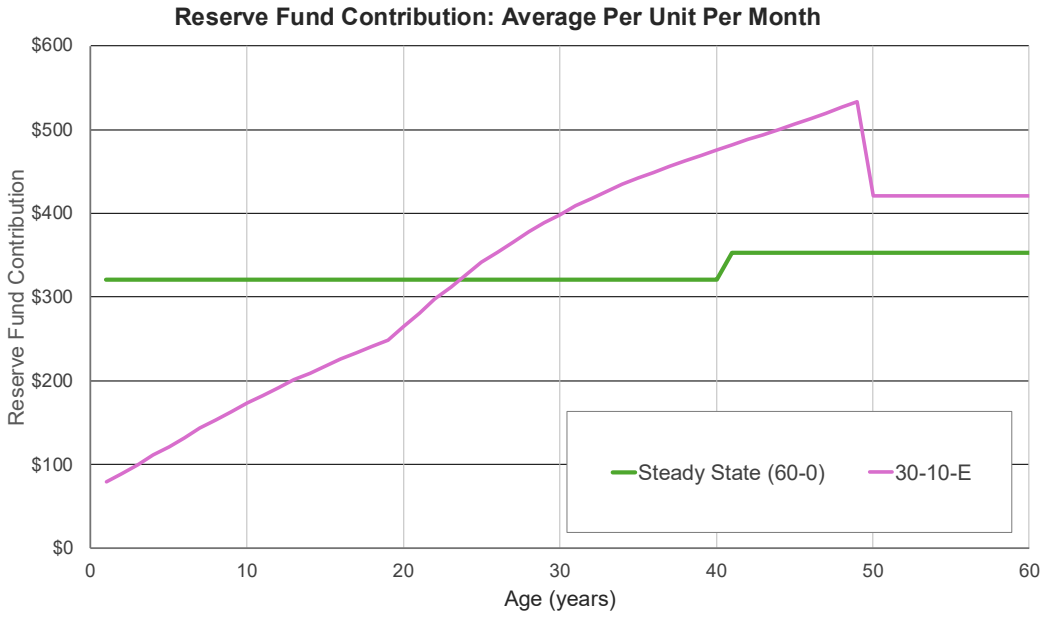

Figure 5 - 30 Year Term, 10 Year Exponential Phase-in Period

This graph is alarming. The owners for the first 25 years under-contribute significantly, and the later owners must over-contribute significantly, compared to the steady-state benchmark. Sadly, many boards following a report with a 30-year term and a long phase-in period have no idea that they are setting their condo on a path to serious financial challenges in the future. And yet, this is entirely predictable.

> Many boards following a poor plan have no idea that they are setting their condo on a path to serious financial challenges. And yet, this is entirely predictable

This should not be allowed to continue if we want the Ontario condominium industry to remain viable in the long term. It is government's role, with that understanding, to take the necessary legislative steps to protect innocent condominium owners from this fate and ensure/enhance long-term housing affordability.

Paradoxically, these early under-funders have lower maintenance fees for the first twenty-five years compared to their properly funded peers. The market tends to reward these lower-fee buildings with higher unit values when compared to similar buildings with higher fees. Purchasers see higher fees as signs of trouble, when in fact they are a sign of long-

term health of the corporation. Unfortunately, the market rewards boards who knowingly (or unknowingly) underfund their reserve fund.

The examples in this white paper focus on one real example building. In Appendix A, we have included a table summarizing the same analysis for a sample of recently constructed condominiums provided by our Stantec, Keller and Synergy.

9. FROM DEFERRED CONTRIBUTIONS TO FINANCIAL RUIN

Of course, condominiums do not have a twenty-five-year service life, and eventually they reach the age when all those years of underfunding must be made up. Regrettably, in addition to a 30-year analysis and long phase-in periods, many boards have also made decisions about deferring required work, in a perpetual attempt to keep fee increases to a minimum. As a result, the condition of the buildings degrades while the maintenance fees required to fund the repair obligations can become financially unbearable. Some condominium corporations may simply fail.

Some condominium corporations may simply fail.

It is not uncommon to see a 40+ year old building that needs $8m to $15m of spending in the subsequent 5 to 10 years but only has $200,000 in its reserve fund. They are between a rock and a hard place.

This is the ultimate danger of backloading reserve fund contributions. A condominium may appear affordable and financially stable for decades while the model shows that its obligations are simply being transferred forward to future owners. By the time the deferred costs become apparent in high maintenance fees, building conditions will have declined and special assessments or loans may be the only option. The range of manageable solutions may have narrowed dramatically.

10. REQUIRED REFORMS

We know this problem exists. Action needs to be taken to prevent problems in the next generation of condominiums.

1. As a proxy for the steady-state benchmark, the Condominium Act should require the first-year contribution set by the builder to be 35% instead of 10% of the operating budget, or to be based on a representative 60-year term reserve fund study prepared based on the drawings.

2. The Condominium Act should also require all reserve fund studies to use a report term that captures all major common elements (i.e. 60 years).

3. The Condominium Act should limit contribution increases that exceed the underlying project cost inflation assumption used in the study to the three years following the study.

If these measures were in place, then the first-year reserve fund contribution set by the builder for our example building would have been $275/unit/month and the first reserve fund study would easily handle the 16% increase to $320/unit/month over a reasonable phase-in period.

First buyers would have been advised what the real cost of living in this building is, instead of being misled at the time of making their purchase.

Boards would not face the dilemma related to large increases being required and the building would have a better chance at not being underfunded in the long run. Although the maintenance fees would be higher in the early years, under this circumstance, the future owners would only have to pay the steady-state benchmark – not 67% more than the benchmark.

Without the need to face significant contribution increases, boards would be unlikely to defer work, reducing the risk of building degradation.

These higher fees at new condominiums may put downward pressure on purchase prices, because lenders would reflect the higher maintenance fees in the debt service allowance when determining the

> Our housing industry should be built on a proper factual foundation

amount to lend. Builders would need to build buildings where units could be sold within the funds available to purchasers. But the alternative, of significantly and knowingly understating first year contributions (and the related maintenance fees), thereby concealing the actual costs to own and operate a condominium, trapping purchasers in deals they can't really afford, and hard coding in significant financial challenges, seems unthinkable. Our housing industry should be built on a proper factual foundation.

If the first contribution is permitted to be determined based on a reserve fund study prepared for the builder, from the drawings, then there will need to be proper guidance on the quality of the study. All expenditure forecasts used in the studies must be "all-in" costs. This means that they must include all construction costs, including mobilization, demobilization, permit, bonding, access and "all-other-items" costs related to the project, as well as a reasonable construction contingency, allowance for engineering or other costs related to oversight of the project and applicable taxes. Major repairs must be reflected, in addition to replacement programs.

Consideration could also be given to creating a penalty for builders who prepare a reserve fund study that understates the required contribution. This could be added to the builder's existing accountability for the first-year budget shortfall.

11. TRANSITIONING EXISTING CONDOMINIUMS

For existing condominiums, the consequences of past funding decisions are already baked into their reality. Many corporations are facing significant increases in capital spending and reserve fund contributions as their buildings age. Unlike new condominiums, these corporations cannot go back and collect contributions from owners who have already sold their units.

The findings in this paper demonstrate how these financial pressures develop over time. However, existing condominiums face a wide range of circumstances depending on their building condition, upcoming repair and replacement costs, reserve fund balances and the financial capacity of their owners.

For these buildings, the focus must be on developing realistic expenditure forecasts and funding plans that will allow them to meet their obligations. Using the principles discussed in this paper, when obtaining reserve fund studies, existing condominiums should be required to use a planning threshold of 50 to 60 years to ensure the study represents the long-term costs of the building. The phase-in period used in all studies should be limited. Given the financial circumstances in the existing condominium stock, it might be wise to limit the phase-in period to six years for all studies completed before 2030 and reduce the phase-in period to three years after 2030. In the future, if extraordinary events like the very high inflation after the COVID pandemic happen, the government could temporarily permit longer phase-in periods for all condominiums in the province.

Higher contributions will commonly be necessary, and some corporations may also need to consider special assessments or borrowing to fund major projects. However, continuing to defer necessary contribution increases will only compound the problem and place additional financial pressure on future owners.

Reserve fund planners have an important responsibility to clearly recommend a funding strategy that adequately addresses the corporation's anticipated capital obligations. They should stand behind their professional recommendations rather than reduce contributions simply to avoid difficult discussions about fee increases. Boards may consider alternative funding plans, but these should be evaluated against the recommended plan, with the financial consequences and risks clearly explained. Ultimately, Boards are responsible for adopting and implementing a funding plan that meets the corporation's obligations.

Determining the best approach for dealing with the financial challenges faced by existing condominiums is a separate challenge that warrants further consideration. The focus of

this paper is on preventing the same funding problems from developing in the younger condominium stock and future condominiums.

12. CONCLUSION

Reserve fund planners and condominium professionals have warned for years that low initial contributions, short planning horizons and long phase-in periods create unfair and unsustainable results. The research demonstrates the long-term consequences of inadequate initial contributions, short planning horizons and prolonged phase-in periods, and supports the need for stronger safeguards against systematically deferring capital funding obligations to future owners. The committee therefore recommends reforms to improve initial funding, ensure major long-term capital obligations are considered, and limit the repeated deferral of necessary contribution increases.

The policy conclusion follows directly from the model. Ontario must establish realistic first-year contributions based on a steady-state funding benchmark, require planning horizons that capture all major common-element costs, and limit prolonged phase-in periods. The choice is whether owners contribute responsibly toward the long-term costs of maintaining their building, starting with the critical contribution set by the declarant in the first year or whether those costs continue to be deferred until future owners and aging condominiums face increasingly difficult financial challenges.

Appendix A – Sample Building Data

To supplement the example followed in the white paper, the following table provides the numerical data for a sample of actual Ontario condominiums.

Condo	First Year Contribution (/unit/month)	Steady-State Funding Contribution	Highest Contribution: 30-year term with 3-year phase-in[4]	Highest Contribution: 30-year term with 10-year phase-in[5]
188 units, constructed 2023, high rise	$79	$320	$403 126% of steady-state	$534 167% of steady-state
58 units, constructed 2024, high rise	$98	$441	$560 127% of steady-state	$781 177% of steady-state
379 units, constructed 2023, high rise	$94	$304	$372 122% of steady-state	$495 163% of steady-state
240 units, constructed 2024, high rise	$208	$785	$1,048 134% of steady-state	$1,443 184% of steady-state
15 units, constructed 2025, low rise	$50	$190	$231 122% of steady-state	$350 184% of steady-state
172 units, constructed 2025, low rise	$42	$188	$233 124% of steady-state	$370 197% of steady-state
51 units, constructed 2025	$96	$163	$201 123% of steady-state	$299 183% of steady-state
182 units, constructed 2025	$71	$242	$316 131% of steady-state	$396 164% of steady-state

[4] This is the highest contribution required between year 1 and year 60 of the analysis term if each update looks forward only 30 years and phases the required increase in over 3 years.
[5] Note that all contributions are in current year dollars, not inflated dollars. The pain felt by future owners paying these higher amounts will be the same as it would be if they were paid by the first-year owners.

Condo	First Year Contribution (/unit/month)	Steady-State Funding Contribution	Highest Contribution: 30-year term with 3-year phase-in[4]	Highest Contribution: 30-year term with 10-year phase-in[5]
216 units, constructed 2022	$176	$642	$917 143% of steady-state	$1,176 183% of steady-state
572 units, constructed 2020	$52	$301	$413 137% of steady-state	$511 170% of steady-state
489 units, constructed 2024	$139	$304	$437 144% of steady-state	$547 180% of steady-state
210 units, constructed 2020	$55	$283	$374 132% of steady-state	$443 157% of steady-state
26 units, constructed 2024	$637	$1,917	$2,348 122% of steady-state	$4,262 222% of steady-state

Appendix B – The Model

The model used for this research incorporates the following:

Sample Buildings

- All buildings used for this paper were newly constructed; the analysis started with $0 opening balance
- The minimum balance used to calculate the first critical years was $0
- All data used was taken from actual reserve fund studies completed for Ontario condominium corporations by three reserve fund providers: Synergy Partners, Keller Engineering and Stantec. To extend the expenditure forecast data for the full 125 years used by this model, some projects required slight adjustment. For example, if a provider normally budgets for two repairs to the garage waterproofing between full waterproofing replacement projects and would typically only plan the first two occurrences of those pairs of repairs (one before the first waterproofing and one between the first and second waterproofing projects) because that would be sufficient for a 60-year analysis, then the repair was revised to the same dollar amount, but cycling on a frequency that permitted the project to continue to repeat until year 125. Otherwise, the projects just continued using the frequency defined in the study. For example, if boiler replacement was planned every 22 years, then this pattern continued for the full 125 years.

Calculation Methods

- Interest each year is calculated by taking the opening balance coming into the year, adding half of the annual contribution, deducting half of the forecasted expenditure and multiplying the result by the assumed interest rate.
- The closing balance in each year is calculated as the opening balance in the year, plus the contribution in the year, plus the interest earned in the year, less the forecasted expenditure in the year.
- The closing balance and annual contribution from Update 1 became the opening balance and contribution for Update 2 and so on. The second-year contribution in the next update is calculated, again using goal seek, to determine the minimum contribution required for the closing balance to again equal the minimum balance.

Analysis Methods

- During the phase-in period in each update, the year-over-year increase in contribution is either a fixed amount (linear increase e.g., $22,000 per year) or a fixed percentage (exponential increase e.g., 6.7% per year).
- The analyses used a critical year analysis methodology. A critical year is a year when the reserve fund is estimated to reach the minimum balance defined for the study (zero in this case).
- At each update, goal seek was used to determine the minimum contribution required for the closing balance to reach the minimum balance (zero in this case), that is, to trigger a critical year, within the defined report term.
- The updates were modeled on a three-year cycle, as is required by the Condominium Act.
- The update cycle was repeated 20 times for each model.
- The model can vary the term length, the phase-in period length and the type of phase-in (exponential increases or linear increases).
- At some sample buildings, the first critical year was reached within the phase-in period of one or more of the last five of the 20 updates. In this case, normal practice would be to use goal seek to determine the reduced contribution in the year following the critical year. In this model, the recalculation does not occur until the second year of the following update (which is one or a maximum of two years after the year when it would normally occur). We reviewed this and determined that the slight difference in overall numbers that resulted from this minor deviation from standard practice was not material.
- Steady-state contribution benchmark was determined by using goal seek to determine the first-year contribution that would be required to reach the minimum balance within 60 years. The model generally predicted a small increase in this fair contribution level after the first 20 years, which contain very little spending, moved out of the analysis window. This was a minor shift upwards and is not reported in this paper as it would add confusion without further illumination. We could have determined the number that would be needed for a full 200-year term, which would not increase during the 20 updates, but felt that a 200-year term would be seen as excessive as it far exceeds the service life of the components being planned for.

Additional Information:

- The scenario nomenclature used on graphs is 30-3-L where 30 is the number of years in the report term, 3 is the length of the phase-in period, and L (or E) indicates if the increase was applied linearly or exponentially.
- Our comparison tables indicated the 30-3-L contributions, the 30-10-E contributions and used 60 years with no phase-in for the steady-state benchmark contributions. There is no material difference between the 30-3-E and 30-3-L models because the full increase determined in the study to be required is implemented by the third year. The E vs L methodology only impacts the outcome when the phase-in period is longer than the interval between updates.
- There are studies being completed in Ontario with terms of only 30 years and phase-in periods that are longer than ten years, however ten years seems to be more common for first studies, so that is what we used here. However, in doing our research we found examples where buildings used a ten-year phase-in period for their first study, then changed to longer phase-in periods for subsequent updates, occasionally phasing the required increase in over 20 or more years. The outcomes for those corporations would be even worse than the negative outcomes communicated in this white paper.