



A CONDO OWNER'S GUIDE TO

COMMON ELEMENT FEES

CHAPTER 1

INTRODUCTION



Common Element Fees, also called “Maintenance Fees” or “Condo Fees”, are mandatory payments made by Condo Owners to the Condominium Corporation. **These fees allow for the maintenance of the common elements and general upkeep of the building.** Though to the eye of a new Condo Owner these fees may seem like an annoying extra expense, **a well-managed Condo Corporation puts every penny to good use in keeping the community running smoothly.** These fees are required by law, and cover a variety of costs that save Condo Owners the headache of having to pay for individually as the owner of a single family home may have to.

As a Condo Owner, or as a member of the Condo Board or Condo Corporation, it is essential to understand the necessity, the processes, and the reasons behind common element fees **and how they may impact your budget**, the condo’s budget, and how it is decided that this money will be spent. Like taxpayers, **Condo Owners have the right to know where their money is going.** By following this guide, owners and board members will gain better insight into the inner workings of a condo corporation’s budget, **and how your condo fees play an important part into keeping the condo running smoothly.**

CHAPTER 2

WHERE DOES THE MONEY GO?



REPAIRS

Predictably, one of the most obvious expenses that the common element fees cover is the general repairs of the building. Whether it's **replacing light bulbs or fixing the plumbing**, every building needs maintenance **done regularly to avoid falling into disrepair**. Maintenance fees cover the **repairs and replacements of all common elements**, including hallways, shared amenities such as party rooms and pools, building and structural elements such as supports, ducts, boilers, elevators, and **any other repair that takes place within a common area of the condominium.**

CLEANING

On top of general repairs, proper maintenance of any building includes cleaning. **Common areas such as lobbies, amenities, elevators, hallways, and stairwells are all cleaned regularly**, and this cost is covered by your common element fees. Bigger jobs, such as **window washing and snow removal, are done less frequently** but also must be budgeted for and are therefore also covered by the fees.



UTILITIES

Covering utilities is one of the **most convenient aspects of common element fees**.

By splitting the cost of utilities throughout the condominium, residents don't need to worry about paying an additional common element utilities bill monthly on top of other bills and fees. **Common element fees typically cover hydro, gas, and water**, but can often also include **cable and/or internet if provided by the building**.

OTHER EXPENSES

Though this is not an exhaustive list, there are **many other assorted things that are covered by common element fees** that do not fall into the above categories. These costs are including but not limited to:

- Security
- Concierge (if applicable)
- Inspections
- Management
- Building Insurance



CHAPTER 3

THE RESERVE FUND



SAVING FOR THE FUTURE

Though some usage of the collected payments of common element fees can be seen immediately such as in utilities, cleaning, and minor repairs, **much of the acquired funds are not put in use immediately.** The common elements of a corporation are **designed to last for many years, often decades.** When they do need to be repaired or replaced however, **these repairs are expensive.** A roof replacement might cost in excess of \$100,000, while even small repairs to elevators may be thousands of dollars.

These sorts of costs must be prepared for, and as such, the Condominium Act requires that a condominium corporation save every year for future expenditures. These savings are put into a **“reserve fund”** which does what it says: **reserves money for future use.**



RESERVE FUND STUDIES

In order to determine how much needs to be saved each year, the Condo Corporation is required to **hire a specialist to assess the condition of the corporation's common elements.**

This specialist is often an architect or engineer with great experience doing this type of work. When this work is done, the corporation receives a **Reserve Fund Study**, which specifies **when and how much is to be saved and includes inflation-adjusted estimates of expenditures in the future.** However, it is not enough to

conduct one Reserve Fund Study and use it for the next 50 years. As the corporation ages, different components are replaced, some of which need to be replaced faster or slower than originally predicted. **A Reserve Fund Study is updated every 3 years** in order to ensure that Condo Owners pay only what is required, and that Condo Corporations have the funds they require to keep the condo running smoothly.



TYPES OF RESERVE FUND STUDY

Normally, a Class 1 is completed once, then a Class 3 is completed 3 years later, then a Class 2 is completed 3 years after that. From then on, Class 2 and 3 studies alternate every 3 years. **It is the responsibility of the Condo Manager to ensure that these studies are performed at the appropriate time.**

A Class 1 Reserve Fund Study is **performed once in the corporation's life** (exceptions apply), in the first year after the corporation is turned over from the builder to the board of directors. This study is **deep and detailed**. It includes an owner survey and lots of time onsite reviewing the common elements.

A Class 2 Reserve Fund Study is an **update of the existing** Reserve Fund Study. **It includes an onsite inspection.** The engineer comes onsite to assess how the common elements are wearing.

A Class 3 Reserve Fund Study is an update of the Reserve Fund Study that does not include an onsite inspection. As with all studies, **it requires extensive management involvement, as the engineer does not come on site.**

CHAPTER 4

RESPONSIBILITIES



RESPONSIBILITIES OF THE CONDO CORPORATION

The biggest responsibility that the Condo Corporation has towards the common element fees is **properly managing and budgeting with the fees collected** from Condo Owners. The board of directors and Condo Manager **work together annually to determine a budget for the following fiscal year.** Using this budget, the manager determines the fees that must be collected from each owner. **Every owner must pay their share in order to fairly collect the required funds.**



RESPONSIBILITIES OF THE CONDO OWNER

All owners are **required by law to pay their share of common element fees.** As you might expect, **a 2-bedroom unit will pay more in fees than a 1-bedroom unit.** The exact breakdown is found in **“Schedule D”** of the condominium corporation’s declaration. It is the responsibility of the Condo Owner to be **aware of the amount owed, and to pay in full to the Condo Manager by the due date.** When an owner doesn’t pay their fees, this puts the whole corporation at great financial risk.

OVERDUE FEES

Condo Corporations are non-profits, which means there is no extra profit that can be used to offset an owner who does not pay. The corporation is required to be **very aggressive in collecting overdue common element fees**, even though it is not their responsibility to remind Condo Owners to pay their due. **When fees are not paid, liens are filed in short order.** This usually results in the owner's bank stepping in and paying the overdue fees. In some situations, **this can even escalate to a forced sale**, where the offending owner is forced to sell their unit so the corporation can recover overdue fees.



CHAPTER 5

THE BUDGET TIMELINE



FIRST YEAR

Due to the nature of development, **the budget for the first year of common element fees is set by the builder**, not by the Condo Corporation. Post turnover of the corporation from the builder to the Board of Directors, the board and manager operate the Condo Corporation as per the budget the builder has given. However, more often than not, **the corporation finds that the budget is not sufficient to meet the needs of the corporation.** The common element fees that the corporation collects from owners are **not enough to pay out all the bills that the corporation incurs.**

When this happens, the corporation is **forced to draft and approve a revised budget, and to raise common element fees for owners.** This does not occur because the board or manager “wants to” raise fees, but because they are legally bound to keep the corporation solvent. This increase in common element fees is such a common occurrence that every real estate agent advising a prospective purchaser of a pre-construction condominium unit or a recently occupied unit **should advise their client that an increase is coming.**

SECOND YEAR

Given this information, it seems that the builder has **every incentive to draft the board as low as possible in order to get the building sold**. There are two factors that act against this trend, however:

1. Reputational Damage

A builder that becomes known for **intentionally budgeting far lower than actual costs** risks significant reputational damage, and therefore has difficulty in selling future units. **Savvy purchasers and investors will discount their valuation of the unit** in order to account for uncertainties about future common element fees, and especially so for builders that aggressively under-budget.

2. The Condominium Act

The Condominium Act stipulates that **the builder is responsible for the “first-year deficit”**. In short, the builder must pay back the corporation for **the difference between the actual first-year budget and the projected first-year budget**.

After the First Year Deficit has been handled, the board of directors and condo manager review the actual operating costs of the corporation, **and incorporate the funding requirements of the reserve fund** as per the completed Class 1 Reserve Fund Study. Typically, the increase between 1st and 2nd year budgets is in **the neighbourhood of 20-30%**, though as much as 50% is not uncommon.

THIRD YEAR

The first two years of a condo's budget are **the busiest and most uncertain**, though increases still happen regularly in year 3. Contributions to the reserve fund typically form a large part of the corporation's budget, and **the reserve fund study typically phases in contributions over 3 years**. This means **an increase of 5% or more is not uncommon** at this point in the budget timeline.

YEAR FOUR AND BEYOND

At this time, **the budget is likely to be more stable** as the Condo Corporation has been able to see how much they do or do not need to run this particular condo building. Unfortunately **this does not mean that the cost of common element fees stops rising**, though it reaches its lowest rate of increase at this point in time. The industry typically expects increases of 2-5% per year after the third year. This figure is variable but has trended on the upper side for the last few years. This is caused by many factors:

- Increased regulation
- Increased reporting requirements
- Insurance
- Manager licensing and education requirements
- Inflation rates

CHAPTER 6

A CLOSER LOOK AT
FEE INCREASES



INCREASED REGULATION AND THE CAO

On September 1st, 2017 the **Condominium Authority of Ontario (CAO)** was formed in order **to protect the rights and interests** of all Condo Owners and Condo Corporations under the Condominium Act. On top of taking responsibility for delegated provisions, The **CAO provides resources and assistance related to condo living to all condo residents in Ontario**. In order to provide this to the province, they began charging fees in order to fund resources and staff. The fees are currently set at **\$1.00 + HST per month**, per unit, but are widely expected to increase in the coming years.

REPORTING REQUIREMENT INCREASES

The Energy and Water Reporting and Benchmarking (EWRB) initiative has been progressively rolling out since 2019, and will be **fully rolled out in 2023**. The EWRB typically requires a consultant to review the corporation's utility bills and report utility costs, among other information.



INSURANCE RATES

Since approximately 2018, **insurance costs have been increasing substantially** for condominiums across the board. Reasons are debatable but are commonly thought to be **due to increased claims and decreased competition in the industry**. Due to this, a Condo Corporation must factor the increase into their budget for each upcoming year.

LICENCING AND EDUCATION REQUIREMENTS

The Condominium Management Regulatory Authority of Ontario (CMRAO) is the regulatory body that governs condominium managers and condominium management service providers (firms). These **licencing and education requirements have significant costs**, which get passed onto condominium corporations in the form of **higher management fees**.

INFLATION

The National economy must be taken into account for any long-term budget, as this affects the cost of every service and product that is required. Though **inflation has been relatively low in recent years**, there is **a noted yearly increase** in the various trades and contracts that a condominium corporation is party to.

CHAPTER 7

CONCLUSION



As a Condo Owner, **paying common element fees is a mandatory expense that comes with purchasing a condo unit.** Though it may seem unnecessary, by familiarizing yourself with the reasons for these fees and the costs they actually pay for, **the purpose behind them becomes much clearer.** Involvement in the Condo Board gives much more insight into the budgeting process, but even a casual Condo Owner has the right to know where their money is going, whether it's clean facilities or a new roof. In the end, **the responsibility of common element fees is an agreement that both the owners and corporation must uphold** in order to maintain a functional, responsible, and respectful condo community.

