


Condo Law for Albertans

condolawalberta.ca/finances/reserve-fund/


Condominium corporations are required to establish and maintain a reserve fund to cover the costs of major repairs to or replacement of the corporation's real, personal and common property.

 **Tip:** For bare land units, condo corporations are responsible for covering the costs of major repairs to or replacement of any property that is required by the bylaws (also known as managed property).

To determine how much money a condominium corporation should have in its reserve fund, a reserve fund study, report, and plan must be completed by the corporation every five years.

Reserve funds must be held in separate accounts, and cannot be mixed with the corporation's operating funds. Money from a corporation's reserve fund also cannot be mixed with any other corporation's reserve fund or with any other money.


It is important for both unit purchasers and unit owners to understand the importance of the reserve fund and what to look for in the reserve fund study, reserve fund report, and reserve fund plan.

 **Tip for condo boards:** If you have any questions about your condominium's requirements to establish and maintain a reserve fund, you should seek legal advice.

What is a reserve fund study and report?

Reserve fund study: A physical inspection of the condominium's depreciating property (for example, roof, heating system, entrance doors, etc.) that must be completed every five years. For more information, read Ask Maria: Ready Reserves.

Reserve fund report: A written document outlining all of the findings from the reserve fund study.

 **Tip for condo boards:** It is a good idea for boards to keep a schedule of when they will need to do a reserve fund study and plan well in advance to find a suitable professional to complete the study.

Who can complete a reserve fund study and report?

It is the condo corporations's responsibility to hire a qualified person to complete the study every five years. A qualified person is someone who is knowledgeable about depreciating property, including its operation, maintenance, and the costs associated with repairing or replacing it.

The corporation has 2 years following the registration of the condominium plan to complete a reserve fund study and report.

If a condominium has 12 units or less, the condo corporation can carry out the study itself. A special resolution must be passed to allow the corporation to conduct the study. However, experts recommend that, whenever possible, a qualified person conduct the study and prepare the report.

Under the *Condominium Property Regulation*, a corporation is exempt from retaining a qualified person to prepare a reserve fund study and from establishing or maintaining reserve fund if:

- The certificate of title to each unit is registered in the name of the same owner or the same group or owners, and
- The units are rented or offered for rent to persons as tenants who are not purchasers/not intended to be purchasers.



Tip for condo boards: Do your due diligence and research before retaining a qualified person to prepare the reserve fund study. For example, experts recommend that boards do reference checks and ask for samples of reserve fund plans the service provider has recently completed. This should be done before entering into a contract with any service provider.

What information should a reserve fund report include?


The reserve fund report outlines the findings of the reserve fund study. The following information must be included:

- The qualifications of whoever did the reserve fund study and prepared the report, including whether or not the individual is an employee or agent of the condominium corporation.
- An inventory of all depreciating property (for example, roof, siding, heating and cooling systems, plumbing, and electrical systems) that may need to be repaired or replaced within next 25 years.

- For each piece of listed depreciating property:
 - a description of its current condition
 - an estimate of when it will need to be repaired or replaced
 - an estimate of the cost of repairs or replacement
 - the estimated life expectancy after repair or replacement
- The amount currently in the reserve fund and a recommendation for how much should be added to it to meet future costs of repairing and replacing the common property.
- Any other relevant matters (for example, determining the potential damage to an item if it is not repaired or replaced).

What is a reserve fund plan?

After receiving the reserve fund report, a condominium board must approve a reserve fund plan that describes how much money is needed to top up and maintain the reserve fund based on the report. The plan will also set out how the condominium board plans to raise any additional funds needed to meet the report's recommendations (for example, through a special levy and/or increased condominium contributions).

 If you're a unit owner, you must be provided with a copy of the reserve fund plan before the board can begin collecting any extra money to top up the reserve fund. A corporation that has not yet approved of a reserve fund plan and provided a copy to the owners can still collect funds for a fund that is similar in nature to a reserve fund and operate that fund.

Potential purchasers: What you need to know about reserve funds

What you need to know depends on whether you are interested in a resale unit, conversion development, or new development.

Resale units

For resale units, you should make a written request for a copy of the reserve fund report and plan from the condominium corporation before you buy.

Look for the following information in the report and plan:

- Who conducted the reserve fund study and prepared the reserve fund report? You may want to do some research to assess the qualifications of this person.
- How much is currently in the reserve fund?
- What will need to be repaired or replaced over the next 25 years?
- Is there enough money in the reserve fund to cover the repair and replacement of common property or will the condominium have to collect more money from owners?

- If there is a shortfall, how does the condominium board plan to make it up? Special assessments? Increased condominium contributions (fees)?



Tips for buyers:

- When reviewing the reserve fund report and plan, you want to see a healthy reserve fund that will enable the corporation to adequately cover capital repair and replacement costs. The reserve fund plan should reflect the recommendations made in the report and include a realistic plan to cover long-term costs.
- You should also review other related documents such as meeting minutes, annual reports, and financial statements to see if and how the corporation has dealt with any prior reserve fund issues. For example, do the documents reveal that the corporation has a history of imposing special assessments to deal with reserve fund shortfalls?
- It is highly recommended you get a lawyer, real estate professional, and/or document review service to help you review the reserve fund report and plan.

Conversion developments

A conversion condominium development usually consists of units and common areas in an existing structure. The structure may have been used as rental accommodation or commercial leased space which undergoes some degree of renovation as part of the conversion process.

If you're interested in a conversion condominium, the developer must complete a reserve fund study, report, and plan prior to offering units for sale. The developer is legally required to provide you with a copy of the reserve fund report and plan.

Review the reserve fund report and consider what work the developer has already done and what will need to be completed in the future. The report also explains what will need to be repaired or replaced over the next 25 years and how much it will cost.



Since conversions often involve older and/or non-residential buildings, the future costs of replacing or repairing capital property could happen sooner and cost more than a new development. A developer is not required to put money into the reserve fund, which means owners may face higher contributions (fees) or special assessments to ensure the reserve fund has enough money to cover future repairs.

It is highly recommended you get a lawyer, real estate professional, and/or document review service to help you review the reserve fund report and plan.

New developments

If you are interested in purchasing a unit in a new development, there likely will not be any reserve fund information available for you to review. A condominium board has two years from the date the condominium plan is registered to complete a reserve fund study, report, and plan.

Further Resources

For a complete overview of what you need to know about condo finances before you buy, download our free publication: [Before You Buy: Understanding Condo Finances](#).

Living There: What can the reserve fund be used for?

A reserve fund can only be used to repair or replace common property, such as the building's roof, central heating system, entrance doors, or exterior siding. It cannot go towards renovations or improvements to the common property unless authorized by the owners.



Money collected for the reserve fund cannot be returned to owners. For example, if a [special assessment](#) is levied to replace the building's roof and the cost is less than the special assessment, owners do not get any money back. Any surplus money stays in the reserve fund. However, different rules regarding the return of reserve funds may apply when a condo corporation has been terminated. You should always seek legal advice when dealing with this type of situation.

The condominium corporation's [annual report](#) will state how reserve fund money was spent in the previous fiscal year.

Thank you to the [Alberta Real Estate Association](#) for allowing portions of their Condominium A to Z course manual to be adapted for use in this section.



The *Condominium Property Amendment Act* will bring changes to reserve funds in Alberta. This website will be updated once the changes come into force.

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