

# Review the Condominium

## Status Certificate

### Before You Buy



*By Brian Madigan*

The first time most condominium purchasers see the Status Certificate issued by their Condominium Corporation is about three months after their closing, when they finally get around to reviewing the solicitor's report on title. This is far too late! The certificate contains valuable information that should have been used in the negotiations.

The board of directors of every condominium corporation is obliged to issue a "status certificate" which will include information about the following:

- composition of Board of Directors
- constitution, by-laws and rules
- common expenses
- anticipated increases in common expenses
- financial statements, including the most recent audited statement, current budget and size of reserve fund
- anticipated assessments to increase the size of the reserve fund
- status of any legal actions and outstanding judgments
- a list of current agreements
- the owner's compliance with the corporation's agreements
- number of units leased
- certificate of insurance
- changes proposed to the common elements

As a result, you will find a wealth of information concerning the condominium in the attachments that accompany the status certificate. But, don't wait until after closing to review it. Even the day or two before closing is too late for any meaningful negotiating. The lawyer will only point out and deal with something that is a disaster. However, you can appreciate that it would be very helpful to have it available at the time negotiations were

underway, since it contains a good deal of information which can effect the selling price.

### **Reserve Fund**

The by-laws of the corporation will provide for a reserve fund to be established. This fund is to be used solely for the purposes of major repair and replacement of the common elements ie. roofs, elevators, mechanical, electrical, plumbing systems, recreational facilities etc. The standard form agreement of purchase and sale will include the transfer of the vendor's share in this fund to the purchaser as part of the negotiated purchase price. This is not always fair.

This is an important feature to note when you are considering the difference between a single-family home and a condominium apartment, both 10 years of age, and both with 20 year roofs. For the house, a purchaser will consider the value based upon his expectation to replace the roof in 10 years. The condominium reserve fund will include one half of the replacement value of a new roof. So, here the purchaser gets the apartment and a proportionate share in the bank account. At least, that is how the system is supposed to work in theory. Hopefully, you will agree with me that it would be impossible to determine the true value of the condominium apartment without seeing the reserve fund study, and knowing the amount of funds held in reserve. You cannot compare two condominium apartments simply by physical inspection.

### **Unlimited Liability**

There is another important difference. A condominium corporation does not extend limited liability to its owners. This is an expectation when it comes to business corporations. The shareholders are not responsible for the corporation's debts. How would you like to find out that you bought shares in a major corporation listed on the stock exchange that just went bankrupt and that you are responsible (with the other shareholders) for its debts? This might come as a little surprise! However, that is just the way it is when it comes to condominiums, there is no limited liability. So, it will be extremely important to find a good one, and again this information is not available just through physical inspection.

So, if you are planning to buy a condominium, make sure you select a realtor who insists on reviewing the condominium status certificate before you buy.

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