

The CCI/CWB Seminar on Financing Large Projects: March 28, 2017

Preamble.

Many condos after receiving a DR will deny, deny, deny before they accept the need for action. CWB stated there are two funding options: a special levy and a bank loan. 90% do special levies. (We know there are at least a couple of other options: a mortgage and deferred municipal taxes.)

Some condos actually sell the building because the land is so valuable.

Loans are growing in popularity partly because of “special levy fatigue” – which I presume means resistance to the shorter time frame for repayment.

Framework of bank loans.

The contract is with the strata and this usually involves a single monthly payment.

The security for the loan is the ability of the strata to collect monthly fees from the owners and to hold a lien against their property.

The bank has the first right of refusal after property taxes and hydro bills.

Why borrow?

There are several reasons. Council has a fiduciary responsibility to keep the strata in good repair. Deferring projects typically results in cost increases of 3-4% per year. Owners can not bear more levies, which usually require payback in a shorter time frame. Repair and maintenance protects and can even increase the value and marketability of the strata. Economies of scale can be achieved with the funding of larger projects.

Types of repairs the CWB has funded.

Balconies, roofs, envelopes, solar power installations, windows and parkades. At this time, CWB has 50 million dollars committed to such loans.

Terms of loans.

CWB will lend up to 20% of the market value of the building based on a two year review of unit sales. The average loan is 12-15% of the market value. The loan approval process is stringent and in ten years CWB has never had a default. The average interest cost of a loan is five years fixed rate and the current rate is 5.5-6.5%. Loans may have a term of up to 25 years.

How to get a loan.

CWB has an application form. It requires a scope of project, financial statement, accounts receivable, and a review of the history of how defaults have been handled. They also want to see the depreciation report and BECA report. Other information may be requested.

CWB requires a 75% vote of owners approving any project they will fund. After all this, Council must sign a commitment letter provided by CWB.

Several legal documents must also be signed by Council and a lawyer must be consulted about this.

The funds are paid directly to the contractor(s) who must have a fixed price contract.

Costs.

Application fee: \$2500

Legal fees: \$3000-7000.

Interest: typically 5.5-6.5%.