2011 Depreciation Report – Executive Summary

One Wall Centre, 938 Nelson Street, Vancouver, BC

SUBMITTED TO
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Table of Contents

Appendices

Table of Figures

1. Introduction

RDH Building Engineering Ltd. ("RDH") was retained by the Owners, Strata Plan LMS 4456 (the "Owners") in June 2011 to prepare an updated to the Depreciation Report (the "Report") for the common property elements (the "Assets") of the air parcel residential high-rise tower located at 938 Nelson Street, Vancouver BC and known as One Wall Centre (the "Building").

The primary purpose of the report is to help the management team, the strata council and the owners of One Wall Centre to make informed decisions about the allocation of resources to the common property assets (such as glazing, heating and hallway carpets).

A draft report was presented to the strata council and management as follows..

- Council meeting on October 12, 2005
- Owners meeting in January, 2006
- Council meeting on June 30, 2011

The Report was later updated to reflect feedback from the strata council and management team

The Executive Summary is provided in printed paper format and represents a summary of many hundreds of pages of information. The supporting data is posted on a secure website at http://bams.rdhbe.com. The purpose of the website is to provide a tool to empower the strata council and management team to:

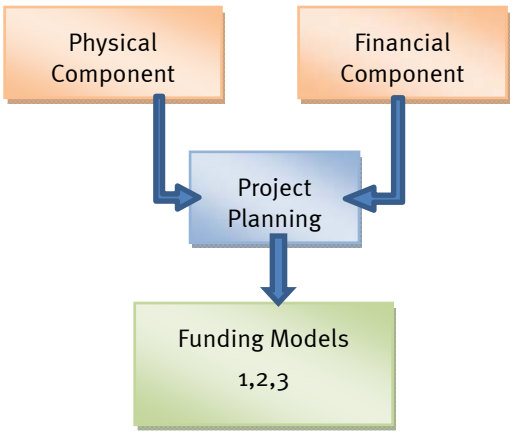
- Track and monitor the health of the assets.
- Generate alternative funding scenarios.
- Keep the data current as projects are completed.

The data is owned by the strata corporation and can be printed and/or exported to spreadsheets as required.

Some disclaimers and disclosures are included in the Report to clarify the scope of services and to provide the owners with an understanding of the methods used in developing the report and assumptions underlying some of the data. As time passes and the physical and financial assessment of the commonly owned assets change, the Reserve Study will require updating. The frequency of updates is addressed in the report.

2. Evaluation of Assets

In accordance with industry-accepted standards, a reserve study includes key two parts: i) a physical analysis and ii) a financial analysis. Together these two sets of data provide the baseline of information to evaluate the current status of the building. Once the status of the assets has been determined, this data can then be used to generate an operational plan, tactical plan and strategic plan for the building. This process is summarized in the graphic below:



2.1. Physical Component

All buildings are subject to physical deterioration as a result of the action of the elements, wear & tear, misuse & abuse and various other factors. Deterioration results in the need for maintenance, repair and rehabilitation of assets. To this end, the physical analysis in the reserve study identifies the following:

- The inventory of common property assets.
- The effective age of the assets and the estimated remaining useful life of the assets.
- Maintenance guidelines to achieve the full intended service life from the assets.

The method of determining the physical health of the assets was based on a visual review of a representative sampling of the assets in readily accessible locations, discussions with facility representatives, and review of readily available reference documents. At this time, no destructive testing has been carried out on any of the assets and the equipment has not been disassembled or subject to re-commissioning tests. The physical analysis (in the reserve study) is not a full "condition assessment" and does not include testing of the assets and exploratory openings.

Over time, all buildings move through a series of lifecycle stages. In this regard, One Wall Centre can be considered a "young" building where few major maintenance and asset replacement projects have been undertaken by the owners, such as:

- Retrofit of security surveillance system.
- Retrofit of domestic booster pumps (hotel project).
- Replacement of domestic recirculation pumps.
- Cyclical replacement of miscellaneous fans.

- Retrofit of expansion tanks.
- Localized repainting of the interior finishes.
- Replacement of concierge computer equipment.

The table below contains a summary of some of the key physical parameters of One Wall Centre.

Physical Summary	
Original Construction Date:	2001
Gross Floor Area (sqft):	74,000
Stories Above Grade:	48
Suites / Units:	72
Asset Age (avg., Years):	9
Remaining Service Life (avg., Years):	13

Fig. 2.1 Physical Parameters

2.2. Financial Component

Over the life of every building, the owners spend money on operating costs, repairs and renewal of capital assets. The financial analysis identifies the current replacement costs of the assets and their future replacement costs; the adequacy of the current reserve balance and ongoing reserve fund requirements.

The costs associated with stewardship of the assets can be distributed into three general categories: "Catch-up costs", "Keep-up costs" and "Get-ahead costs", which are summarized below.

- **Catch-up Costs.** These are costs to correct any accumulated backlog of deferred maintenance. This category also includes the costs to repair or rehabilitate capital assets that have exceeded their useful service life.

- **Keep-up Costs.** These are the projected renewal costs that will occur as each asset reaches the end of its useful life. If an asset is not replaced at the end of its useful life and is kept in operation, through targeted repairs, then these costs get reclassified into the catch-up category. Annual routine maintenance costs are also included within this category.

- **Get-ahead Costs.** These are costs associated with adaptation of the building to counter the forces of retirement associated with different forms of obsolescence, such as functional obsolescence, legal obsolescence and style obsolescence. Some of the costs in this category are discretionary spending that result in either a change or an improvement to the existing facility.

The reserve study and maintenance plan are concerned primarily with the "Keep-up" costs. All costs are presented as "Class D" estimates without soft costs, such as consulting fees and contingency allowances. Listed below is a summary of the key financial parameters of One Wall Centre, which are used to benchmark some of the financial analyses in the report.

Financial Summary	
Fiscal Year End:	
Building Reproduction Cost:	$52,000,000
Current Operating Budget:	$712,655
Current Annual Reserve Allocation:	$90,000
Current Accumulated Reserve Balance (***with glazing funds***):	$4,600,000

Fig. 2.2 Financial Parameters

3. Maintenance & Renewals Program

Maintenance includes the work that is necessary to preserve the assets and to allow their continued use and function above a minimum acceptable level of performance. Maintenance ensures that the assets achieve their full service lives. Renewal includes the financial planning and logistics for the replacement of the assets as they reach the end of their useful service lives.

3.1. Maintenance Program

The strata corporation's maintenance budget is $152,950 per year, which represents approximately 21% of the total annual operating budget. The strata corporation has eight line items in the budget that are devoted specifically to maintenance of the different systems, including a line item of $18,000 for unspecified repairs and maintenance. The strata corporation has at least four maintenance service contracts, which cover the key systems, such as elevators, HVAC, janitorial and concierge. The figure below contains a summary distribution of the proposed annual maintenance costs for One Wall Centre.

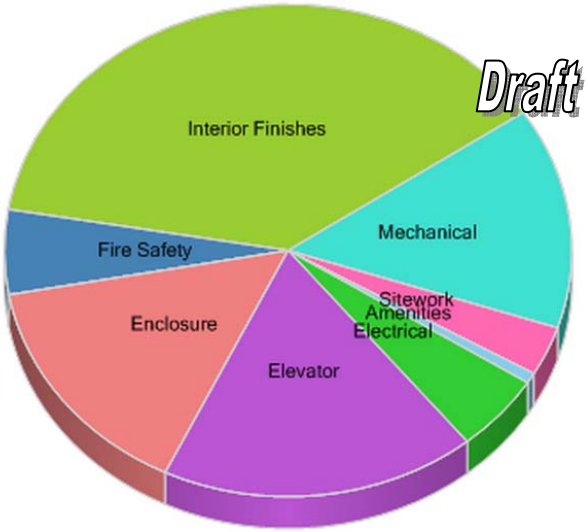


Fig. 3.1 Annual Maintenance Budget

The pie chart reveals that the majority of the maintenance budget is allocated towards the interior finishes, elevators and mechanical equipment, which is a typical distribution for this type of building. The current maintenance budget appears to be adequate to achieve the necessary levels of maintenance for the assets identified in the maintenance plan during this stage in the lifecycle of the building. However, it is recommendation that the corporation consider a few additional line items in the budget to enable refined tracking of expenditures.

In late-2011 RDH conducted a site review on a representative sample of the common elements at One Wall Centre for the purpose of developing an inventory of common property assets and to estimate the useful remaining life of the assets. The property is in relatively good condition with some localized deferred maintenance, which is being addressed on an ongoing basis.

In order to avoid an accumulation of deferred maintenance the owners must ensure that the ongoing maintenance program provides for the necessary and sufficient maintenance of the assets over their useful lives. It is essential,

however, that the owners continue to allow for adequate maintenance of all the assets so as to leverage the full service life from all components of the building.

3.2. Renewals Program

The following table indicates the distribution of the projected renewal costs within each system over the next 30 years. This will enable the owners to better understand which asset groups will require the largest investment of the owners' money over time.

System	Current Dollars	Future Dollars
Enclosure	$4,642,064	$4,796,200
Electrical	$615,500	$981,000
Mechanical	$2,488,100	$3,398,300
Elevator	$455,000	$601,000
Fire Safety	$474,000	$730,200
Interior Finishes	$531,100	$738,500
Amenities	$154,000	$206,900
Sitework	$33,650	$52,300

Fig. 3.2 30-Year Expenditure Forecast sorted by System

The majority of the renewal costs are estimated to occur within the enclosure system. The enclosure system includes assets such as the roofs, walls and windows, which are essential elements for protecting the building structure and for serving as an environmental separator between the exterior and interior spaces. In other words, the building enclosure system has the greatest impact on the cost of ownership at One Wall Centre.

The figure below contains a summary distribution of the capital renewal costs for One Wall Centre, which indicate that the vast majority of these costs are in the building enclosure system.

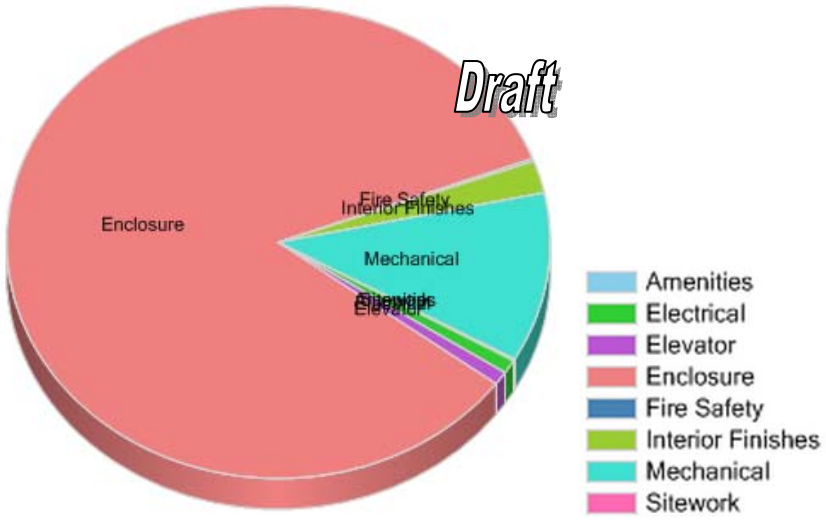


Fig. 3.3 Renewals

The cost implications of these projects, together with scheduling considerations, are addressed in the following sections of the report. Additional supporting material, such as photographs, can be found on the BAM website.

4. Project Planning

When making forecasts about future events and plans for these events, it is strongly recommended that these occur over three different planning windows:

- **"Strategic" Horizon** (30 years): Since the average service life of many of the assets is approximately 25 years (such as roofs and boilers) it is recognized that a long-range view enables the owners to anticipate the majority of the future renewal projects.

- **"Tactical" Horizon** (5-10 years): A five year outlook enables the owners to break up the strategic plan into manageable chunks and to thereby bridge the annual operating budget with the long-range strategic plan. Most owners do not consider ownership of their real estate investment beyond a 5-year window and are therefore only concerned about special levies that may arise during this time period.

- **"Operational" Horizon** (1 year): The annual operating period encompasses one fiscal cycle (12 months). The reserve allocation in the operating budget should reflect the majority of the projects in the tactical plan (5 years) and ideally should also contemplate some elements of the strategic plan (30 years).

We now turn our attention to some of the expenditures that are projected for One Wall Centre.

4.1. "Strategic" Planning Horizon

The chart below graphically illustrates the estimated renewal costs over the next 30 years and thereby provides a high-level overview of the projected cash flow over time. The purple bars indicate the years in which the probabilities of some renewal projects are highest. Maintenance costs (shown in the green bars) are generally consistent from year-to-year.

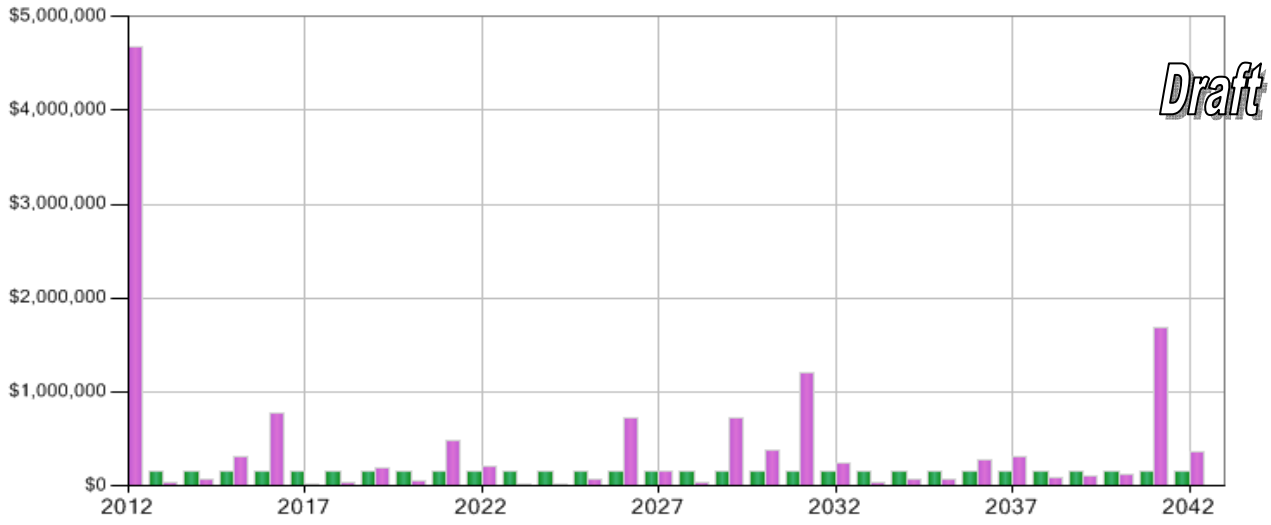


Fig. 4.1 Strategic Renewal Forecast (30 Years)

The renewal costs fluctuate significantly over the 30-year period due to a variety of factors, such as:

- The different service lives for each of the range of assets in the asset inventory. For example, some assets may have a useful life of 5 years whereas other assets may have a useful life of 25 years.
- The impact of different rehabilitation strategies to either replace assets or extend their useful service lives through major maintenance projects.
- The cumulative financial impact of inflation compounded annually over 30 years.

The actual timing of renewal projects will depend on the quality of maintenance and other factors, which may either result in earlier replacement or, in some cases, extend the life of the assets for a few more years.

4.2. "Tactical" Planning Horizon

The next chart graphically illustrates the projected renewal costs over the next ten years. The purple bars indicate the years in which a renewal project (or bundle of renewal projects) is most likely to occur, or is recommended for implementation.

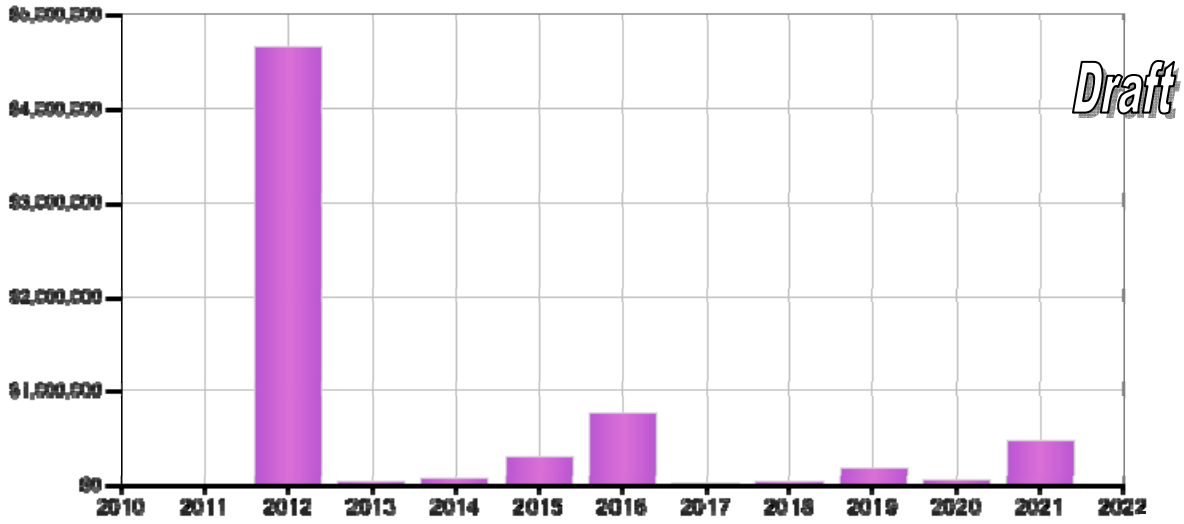


Fig. 4.2 10-Year Expenditure Forecast

Listed below are some of the major maintenance and asset renewal projects that are contemplated in the preceding bar graph:

- Replacement of curtain wall glazing system – this project is fully funded.
- Retrofit of heat pumps in the suites.
- Replacement of shell and tube heat exchangers.
- Renewal of carpet flooring and wallpaper finishes.
- Replace elevator door operators and hardware.
- Renewal of make-up air unit.
- Renewal of parkade traffic membrane.
- Cyclical replacement of miscellaneous pumps, fans, motors and valves.

Some of the major maintenance and capital renewal projects pertain to equipment that is shared with the hotel and will need to be funded based on the reciprocal easement agreements and cost sharing formulas:

- Rebuild of cooling tower.
- Retrofit of central fire alarm equipment. Field devices in the residential areas would be funded by the residential strata corporation.
- Replacement of exposed liquid membrane roof above penthouse suites –this is exclusively a hotel cost.
- Shutdown and cleaning of the primary transformer and substation.

Although these projects are all non-discretionary, there are some opportunities to implement phasing strategies. Some of the larger projects need to be subject to a detailed design and tender process with appropriate consultants so that the scope of work can be fully defined and competitive tenders obtained. At this juncture, the reserve study has provided "Class D" estimates for these projects and has made a number of assumptions about their potential scopes of work.

4.3. "Operational" Planning Horizon

The renewal of the glazing system is the only significant capital renewal project or major maintenance project forecast for the next fiscal year.

4.4. Project Implementation Strategies

Over the next few years the owners will need to consider strategies for implementation of some the asset renewal projects and there are numerous things to keep in mind. For example, renewal projects can be implemented in different ways, such as:

- **Targeted Projects.** These are projects that are localized to particular portions of the building. Different exposure conditions and wear patterns may require that only sections of the building require renewal at one point in time. For example: the exterior wood is repainted in exposed locations whereas the protected locations are deferred to a later date.
- **Phased Projects.** These are projects that are carried out in multiple stages rather than as a single coordinated project. For example: the sealant could be renewed on one elevation in the first year and then on the other elevations in subsequent years. While phased projects can reduce the financial burden by spreading the costs over a longer period, the owners will likely pay more over the long term due to the remobilization of contractors.
- **Comprehensive Projects.** These are projects that are implemented as one coordinated undertaking. One of the major advantages of this approach is that the owners can sometimes leverage the best economies of scale. For example: the exterior wood trim is recoated in all locations around the building at the same time, regardless of their exposure conditions.

Over the ensuing years, the strata corporation will be required to engage consultants and contractors to confirm the appropriate scopes of work, to develop specifications, and to coordinate and supervise the work.

5. Funding Scenarios

The physical analysis and financial analysis have together provided a baseline of information for the owners and management team of One Wall Centre to evaluate the adequacy of the current funding levels and to consider an appropriate funding strategy based on their tolerance for risk and desired standard of care for the property.

5.1. Alternative Funding Levels

To help the owners make an informed decision about the risks associated with different funding levels, the reserve study has generated some alternative funding models to compare the financial impact of different funding levels over the next 30 years. These models serve as a sensitivity analysis to determine the size of the special levies that may occur as a result of different allocations to the reserve fund.

While there are many different scenarios that could be generated, the table below contains three columns to compare alternatives:

	Current	Alternative	Progressive
Percent Funded	33.33 %	55.55 %	100.00 %
Reserve Allocation	$90,000	$150,000	$270,000
Per Suite Per Month	$104	$174	$313
Per sqft	$1.22	$2.03	$3.65

Fig. 5.1 Comparison of Alternative Funding Levels

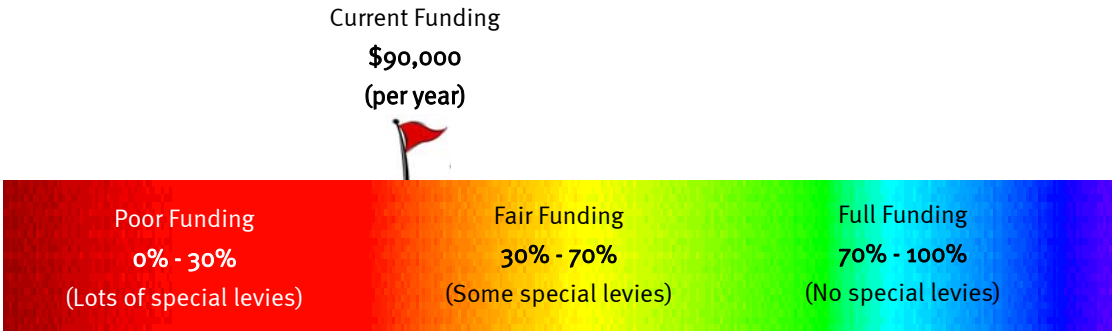
- **Current Reserve Allocation.** This is the funding level that was approved by the owners at the last Annual General Meeting and represents the status quo. This amounts to approximately **$104 per unit per month** (average).

- **Alternative Reserve Allocation.** This represents an incremental increase from the status quo, which is just one of many possible scenarios for a new funding level in the next fiscal year. This amounts to approximately **$174 per unit per month** (average).

- **Progressive Reserve Allocation.** This is the annual allocation that would have been set aside since the first year of operations to ensure that the reserve balance is sufficient to avoid any special assessments over a 30-year period. In other words, the progressive reserve is equivalent to a fully funded reserve balance. The "progressive" reserve allocation is an idealistic target that many strata corporations are not able to meet.

Based on the findings of the reserve study, the strata corporation is currently considered to be approximately **33% funded**. This means that the current reserve allocation of $90,000 is approximately 1/3rd of what it ideally should be if the owners were to avoid any special assessments/levies over the next 30 years.

Although the strata corporation is meeting the statutory minimum contribution to the reserve fund, it is important to note that the statutory guideline is not a good measure of the financial preparedness of the corporation. The figure below illustrates the strata corporation's financial position on a funding spectrum.



If the owners wish to avoid special levies, or to mitigate the financial hardship by reducing the number and size of the levies, it is strongly recommended that incremental increases be made over the next year to move the current funding level from 33% to beyond 60%.

Although the strata corporation has not yet accumulated sufficient funds in its contingency reserve account to avoid all special assessments, there is ample opportunity for the owners to adjust the reserve balance over the next few years. In order for the reserve study to be meaningful to the owners and to avoid having the study dismissed as being unrealistic in its expectations, it is important to establish priorities.

5.2. Funding Scenario "A" – Status Quo

Scenario "A" represents the current funding level approved by the owners at the last general meeting (i.e., status quo) and is based on a fixed annual reserve contribution of **$90,000**. The opening balance indicates the special levy (and legal settlement) to fund the glazing renewal project in 2012.

Year	Opening Balance	Reserve Contribution	Special Assessment	Reserve Income	Renewal Costs	Contingency Costs	Tax Liability	Closing Balance	Percent Funded
2012	$4,600,000	$90,000	$0	$92,000	$4,533,100	$2,000	$0	$246,900	19.82 %
2013	$246,900	$90,000	$0	$4,938	$29,300	$2,000	$0	$310,538	22.10 %
2014	$310,538	$90,000	$0	$6,211	$71,100	$2,000	$0	$333,649	21.82 %
2015	$333,649	$90,000	$0	$6,673	$48,500	$2,000	$0	$379,822	22.62 %
2016	$379,822	$90,000	$292,782	$7,596	$768,200	$2,000	$0	$0	0.00 %
2017	$0	$90,000	$0	$0	$4,500	$2,000	$0	$83,500	6.36 %
2018	$83,500	$90,000	$0	$1,670	$31,000	$2,000	$0	$142,170	9.55 %
2019	$142,170	$90,000	$0	$2,843	$192,300	$2,000	$0	$40,713	2.69 %
2020	$40,713	$90,000	$0	$814	$62,300	$2,000	$0	$67,228	4.06 %
2021	$67,228	$90,000	$328,028	$1,345	$484,600	$2,000	$0	$0	0.00 %
2022	$0	$90,000	$0	$0	$24,000	$2,000	$0	$64,000	4.16 %
2023	$64,000	$90,000	$0	$1,280	$17,600	$2,000	$0	$135,680	7.93 %
2024	$135,680	$90,000	$0	$2,714	$6,500	$2,000	$0	$219,894	11.59 %
2025	$219,894	$90,000	$0	$4,398	$68,000	$2,000	$0	$244,291	12.04 %
2026	$244,291	$90,000	$382,523	$4,886	$719,700	$2,000	$0	$0	0.00 %

Fig. 5.2 Status Quo Funding Model $90,000: Cash Flow Table

The owners are currently accustomed to monthly reserve allocations of approximately **$104** per suite per month (averaged). If the owners were to continue to fund the reserve account at this level, the reserve balance would be inadequate to fund all upcoming projects (over the next 30 years) and will result in the owners having to raise approximately $1,000,000 by special assessment over the next 10 years.

The figure below provides a graphical illustration of the status quo funding scenario. The annual contribution into the reserve account is shown by the green bars, the closing balance in the reserve fund is shown by the purple line and the special levies (to offset the shortfall in the reserve account) are shown as blue bars.

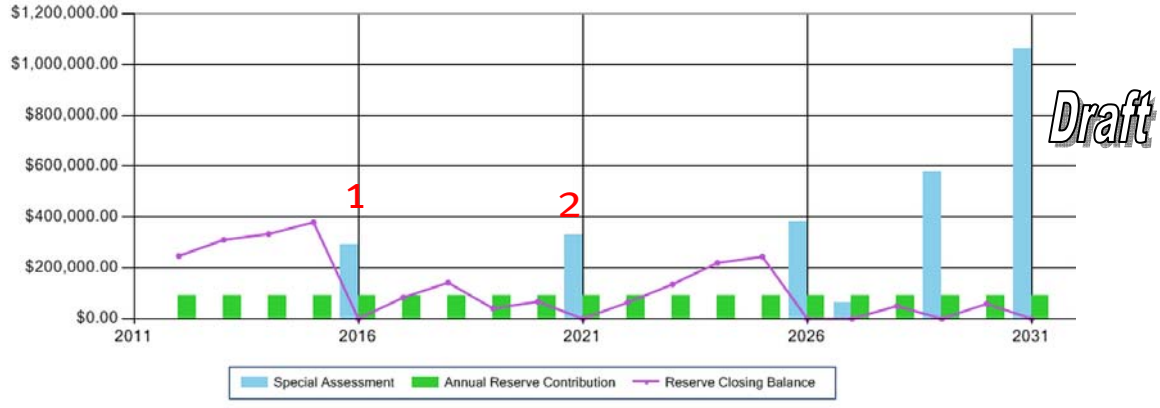


Fig. 5.3 Status Quo Funding Model $90,000: Graphical Analysis

The BAM software tool enables the strata council and management to adjust the financial variables in the model (such as inflation rates and interest rates).

5.3. Funding Scenario "B"

The next scenario is based on a fixed annual reserve contribution of approximately **$150,000** over the 30-year planning horizon. This represents a reserve contribution that is equivalent to approximately **$174** per suite per month (averaged), which is approximately twice the current funding level. The opening balance indicates the special levy (and legal settlement) to fund the glazing renewal project in 2012.

Year	Opening Balance	Reserve Contribution	Special Assessment	Reserve Income	Renewal Costs	Contingency Costs	Tax Liability	Closing Balance	Percent Funded
2012	$4,600,000	$150,000	$0	$92,000	$4,533,100	$2,000	$0	$306,900	24.63 %
2013	$306,900	$150,000	$0	$6,138	$29,300	$2,000	$0	$431,738	30.73 %
2014	$431,738	$150,000	$0	$8,635	$71,100	$2,000	$0	$517,273	33.83 %
2015	$517,273	$150,000	$0	$10,345	$48,500	$2,000	$0	$627,118	37.35 %
2016	$627,118	$150,000	$0	$12,542	$768,200	$2,000	$0	$19,461	1.74 %
2017	$19,461	$150,000	$0	$389	$4,500	$2,000	$0	$163,350	12.44 %
2018	$163,350	$150,000	$0	$3,267	$31,000	$2,000	$0	$283,617	19.06 %
2019	$283,617	$150,000	$0	$5,672	$192,300	$2,000	$0	$244,989	16.20 %
2020	$244,989	$150,000	$0	$4,900	$62,300	$2,000	$0	$335,589	20.27 %
2021	$335,589	$150,000	$0	$6,712	$484,600	$2,000	$0	$5,701	0.41 %
2022	$5,701	$150,000	$0	$114	$24,000	$2,000	$0	$129,815	8.44 %
2023	$129,815	$150,000	$0	$2,596	$17,600	$2,000	$0	$262,811	15.37 %
2024	$262,811	$150,000	$0	$5,256	$6,500	$2,000	$0	$409,567	21.59 %
2025	$409,567	$150,000	$0	$8,191	$68,000	$2,000	$0	$497,759	24.53 %

Fig. 5.4 Alternative Funding Model $150,000: Cash Flow Table

While Scenario "B" does result in eliminating most of the smaller assessments, it is still not adequate to offset all the special assessments over the 30-year planning horizon.

The figure below graphically illustrates the annual contributions (green bars), the closing balance in the reserve fund (the purple line) and the size of the special assessments (blue bars) resulting from this funding level.

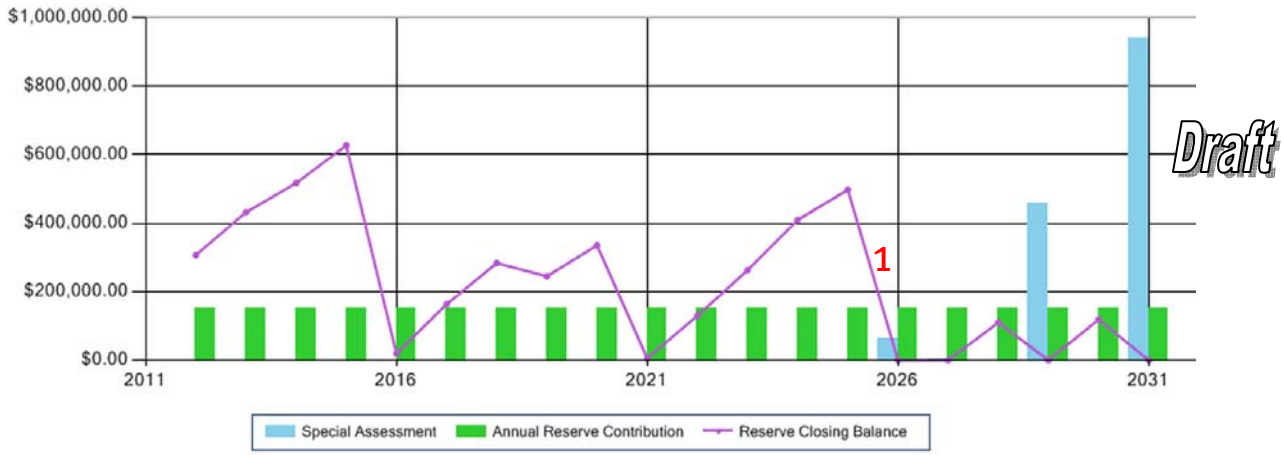


Fig. 5.5 Alternative Funding Model $200,000: Graphical Analysis

The BAM software tool enables the strata council and management to adjust the financial variables in this model (such as inflation rates and interest rates) and to generate additional models.

5.4. Funding by Individual Owners

Notwithstanding which funding scenario that may ultimately be selected by the strata corporation at the next general meeting, each individual owner can develop their own individual funding plans based on the values identified in the reserve study.

Excluding the 2012 glazing renewal project, the reserve study has identified over $6 million of capital projects over the next 30 years.

Out of an abundance of caution, each owner should ideally be setting aside at least **$200 per unit per month** for their personal share of the capital projects at One Wall Centre over the next 30 years. This will prepare the individual owners for special levies if the corporation does not fund the reserves to an adequate level.

6. Recommendations

The following key recommendations are presented for the Owners consideration. The goal is to help the Owners move to a more objective basis of allocating reserve funds for One Wall Centre.

- **Presentations.** Arrange for RDH to provide a presentation of the reserve study and maintenance plan to the strata council and property manager, as required.

- **Steward.** Appoint someone as the "Steward" of the maintenance plan. This individual or committee will act as the timekeeper of the maintenance and renewal schedule and gatekeeper of the maintenance activities.

- **Assumptions.** Review the assumptions and disclaimers listed in the reserve study and maintenance plan. Understand how the list of assumptions can be reduced over time as new information comes to light about the performance of the assets and as certain projects are completed. Seek clarification from RDH regarding any of the assumptions and disclaimers.

- **Funding Models.** Review the alternative funding models in the reserve study and identify which model provides annual reserve allocations that are most likely to secure approval of the owners at the next general meeting.

- **Funding Levels.** Review the adequacy of the current annual reserve allocation levels relative to the funding levels recommended in the reserve study.

- **Software Tool.** Utilize the web-based building asset management system to keep the data current and ensure that it is readily accessible to the council members and property manager.

- **Annual Updates.** Plan for regular updates to the reserve study and maintenance plan (ie. every 2-5 years) and the online data (ie. monthly, semi-annually or annually).

- **Further Investigations.** Conduct additional condition investigations, as required, to refine the data.

RDH is available to assist the Owners with all aspects of the Reserve Study and the online BAM system.

Please contact our office with any questions or if you should require further information.

Sincerely,

RDH Building Engineering Ltd.

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