



Building Investment Fund (BIF)

Processes for Boards of Directors of OMCs



Introduction

Paul Huberman. BSc (Hons) Est. Mgt., BSc A.V.E.A., FSCSI FRICS

Chartered Property Management Surveyor

H&H Property Management Consultants Ltd

Kevin Hollingsworth B.Sc. (Hons) FSCSI FRICS

Chartered Building Surveyor

Chartered Project Management Surveyor

Vice President of SCSl

Omega Surveying Services



Apartment Living & Sinking Funds

- **Apartment living a growing trend in Ireland**
 - over 200k occupied apartments in 2016
- **Most apartments built post-2000 so issue of Sinking Funds relatively neglected up to now**
- **Biggest focus of late is on urgent matters such as fire safety compliance, water ingress and structural issues.**
- **Will become a significant issue in the coming years as buildings begin to deteriorate**

Apartment Living & Sinking Funds

- Building Investment Funds allow for planned maintenance for the life cycle of the development and inform service charge calculation.
- Directors and Agents can avail of independent advice for the Sinking Fund.
- Cost efficiencies of undertaking Reinstatement Cost Assessment at the same time

Apartment Living & Sinking Funds

- Agent acting for OMC should seek BIF Quotes
- Three quotes should include provisional meeting with Board and Agent and or attendance at AGM
- Instruct BIF Report and Rebuild Valuation
- Members of the OMC should get a copy of the BIF along with the AGM particulars

Apartment Living & Sinking Funds

- AGM should have Surveyor attend to provide BIF presentation and field questions on the report.
- Members can then vote on the proposed budget inclusive of the informed Sinking Fund Contribution.

Apartment Living & Sinking Funds

- The Year End Report to show the Sinking Fund Contribution required, made and shortfall for that year
- Hopes to have integration of BIF in accounts and filled for transparency for members and prospective buyers.

BIF Reports

- A Building Investment Fund (BIF) report highlights wasting / depreciating assets of a complex
- Is normally prepared for a 20 year period
- Helps OMC understand Sinking Fund required, when funds needed, annual contributions required from members
- Report preparation cost normally €5-7k
- Should not be 'once-off' but a living document
- Real-life BIF reports show many OMCs very poorly prepared for future expenditures

SCSI Report - Sinking Funds in Apartments Meeting the Challenge (2018)



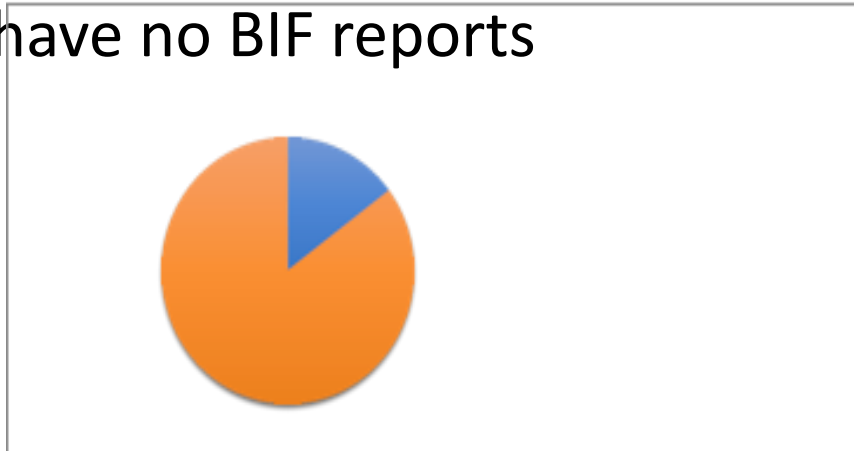
SCSI Sinking Funds in Apartments Meeting the Challenge (2018)

Data gathered in 2018 from nine large Managing Agent companies – relating to 632 OMCs and 52,600 properties:

- 98% of OMCs have a Sinking Fund
- 88% of OMCs have a dedicated Sinking Fund bank a/c
- *Seven of the nine Managing Agent Companies said under 25% of their OMCs have adequate Sinking Funds*
- When asked why Funds are inadequate, Agents cited:
 - *Opposition to higher charges now to pay for future spends*
 - *Lack of appreciation of future expenditure needs*
 - *Some owners already struggling to pay service charges*
- Eight of the nine Agents already had had ‘once-off’ levies

SCSI Sinking Funds in Apartments Meeting the Challenge (2018)

- 86% of OMCs have no BIF reports



- Even for those with reports, just a minority implementing
- Agents say many OMCs do not want BIF reports as they fear they will mean higher annual charges for owners

Apartment Living & Sinking Funds

Building a Sinking Fund an important duty of all Owners' Management Companies (OMCs)

Areas for which Sinking Fund may be Required:

Life systems, including fire alarm systems, emergency lights and vents	Roofs, including copings and cappings, fall arrest systems etc.
Mechanical Plant, including lifts and pumps	Electrical fittings, including light fittings
External common areas, including perimeter walls, pedestrian gates etc.	Windows / Window frames of common areas and perhaps individual units
Building Façade, including external walls and renders	Interior common areas, including carpeting, painting, joinery etc.
Roads and Car Parks, including gates	Re-tiling
Landscaping	Ironwork and Metalwork

Distinction between OMC total assets, total cash reserves and Sinking Fund

Apartment Living & Sinking Funds

Section 19 of Multi-Unit Developments (MUD) Act states:

- OMCs must establish Sinking Funds within three years
- Can spend on refurbishment / improvement works and non-recurring maintenance
- Can also spend on associated advice
- Cannot be used for day-to-day maintenance
- Should be held in a separate account and identified as Sinking Fund

How is the Sinking Fund Arrived at

A Building Investment Fund (BIF) report highlights the wasting or depreciating assets of a building to establish when each material or element will need critical maintenance or replacement.

The BIF report focuses on both the type of materials and form of construction. It is not a defect report but reviews the different elements of the building. The report will identify the current condition and expected remaining lifespan of the elements.

How are rates and life expectancies arrived at?

Rates within the report have been calculated using:

- Tender rates from recent projects.
- Pricing documents such as *Linesight* and *Spons*.

Typical life expectancies have been taken from *BCIS Life Expectancy of Building Components – Surveyors Experiences of buildings in use*.

Life Expectancies



Life Expectancy of Building Components
 Surveyors' experiences of buildings in use
 A practical guide



BCIS is a trading division of RICS Business Services Ltd.

2C ROOF

Pitched Roof Covering: Tile: Generally

Results

Median typical life
60 years

Range
10 to over 100 years

Median minimum life
30 years

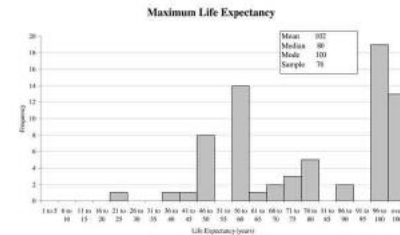
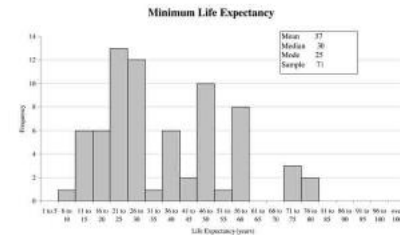
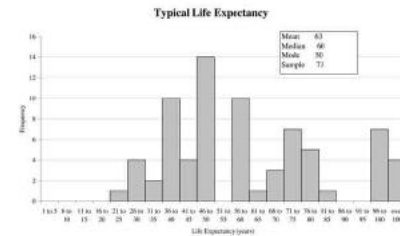
Median maximum life
80 years

Factors to be considered when assessing the life expectancy:

- exposure
- local air quality
- tile material
- tile quality
- inappropriate detailing
- pitch of roof
- method of fixing
- dead/imposed loads
- wind loads
- mortar deterioration at ridge
- organic growth
- workmanship

Early deterioration may be attributed to:

- impact damage
- overloading
- wind action
- frost action
- atmospheric pollution
- incorrect overlap



Example - Roof Coverings

- Replacement @ 60 years is outside the scope of the report
- Repairs at regular intervals
- Collection of 33% of the replacement cost by the end of this 20 year period.



Example - Roof Coverings

- Roof mortar to verges, valleys and ridges replaced at year 15.



Example - Roof Coverings

	Year	Area	Value	Condition	Notes	Remarks	
Re-waterproof Flat roofs Torch-on Felt Replacement	2002	15	€66,440.00	Flat roofs are past end of life, assumed to be in fair to poor condition.	●	2	Assume replacement in the short to medium term.
Pitched Concrete Tile Roof - Replacement	2002	60	€3,822,190.00	Currently in fair condition	●	2	Replacement Outside Scope of Report. 2/3 of cost to be collected by 2043.
Mortar joint repair to ridges valleys and hips.	2002	15	€341,730.00	Visually in fair to poor	●		Mortar joints noted to be in poor condition. Allow for painting every

Example – Mock Mansard roof

- Flat Sections at 15 Years / Vertical Manmade Fibre Tiles at 25 - 30



Balcony Membrane and Supports



Common Windows & Doors



Apartment Windows

- Dependent on the lease!



Balconies

- Membrane / Decking / Supporting structure beneath
- All dependent on the lease!



Lifts



Common Area Wiring and Fuseboards



How Design and Specification affect the BIF

Development A

Slate Covered pitched roof

Brick Façade

uPVC Windows and Doors

No lifts

Low BIF

Development B

Felt Flat Roofs

Rendered Façade

Timber Windows and Doors

Multiple lifts

High BIF

Example BIF Findings (older development)

The findings of the report are that members need to contribute €3,049,935 over 20 years to maintain the building and not require levies.

The report would recommend an annual contribution of €228,000 to cover these costs, this would leave a closing balance of €1,668,418 in the account after this 20year period.

Based on 218 apartments this would result in an annual contribution per unit of €1,046

Timing is everything

The earlier a BIF is starting and collected the better

Years of inadequate funding has created a financial time bomb for many development

Recommended figure of €200 per unit is inadequate

Large levies are inevitable

Implications of doing nothing

- Deterioration of the development
- Emergency EGM's for special levies when something fails
- Litigation from members for failure of OMC to repair
- Non essential repairs such as carpet and decoration are not undertaken
- Reduction of rental and sale value

Thank you

Q&A