

What is Building Asset Management..?



Building Asset Management Bulletin No. 1 launches CHOA's introduction of a 3-year research project for corporations and managers. The bulletins provide a common understanding of the language and terms that relate to the best practices of the maintenance, repair and long-term planning of renewal of your common property and common assets in your building systems. Over the next few months the bulletins will be posted on the CHOA website for public access. The bulletins have been produced in partnership with CHOA, RDH Building Engineering Ltd. and the Real Estate Foundation of BC.

1. Introduction

There are a variety of terms used to describe the different types of management, including: property management, facility management and asset management. This series of information bulletins includes a glossary of terms to help distinguish these concepts.

"Asset Management" is a term often associated with financial investments. In this series of information bulletins, we use the term "Building Asset Management" to mean the integration of three disciplines: management, finance and engineering, which are together applied to the stewardship of the physical assets of a building.

Assets are the major components of buildings, such as roofs, windows, boilers, elevators, hallway carpets and landscaping. Building Asset Management is a process and decision support framework that covers the full service life of the physical assets from cradle to grave.

2. Building Owner Objectives

It is useful to start our discussion on Building Asset Management by identifying the shared requirements of all residential building owners. These requirements set the benchmark against which Building Asset Management is to be measured.

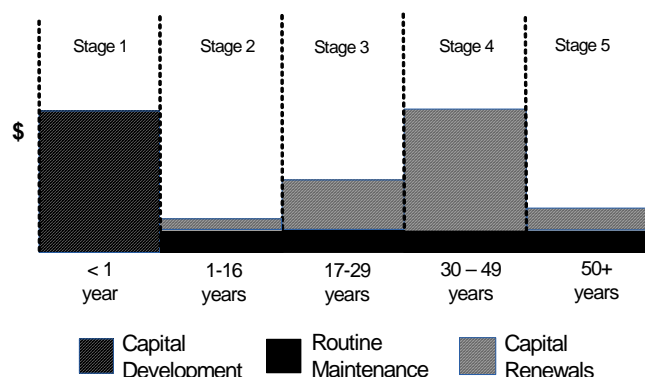
- **Peace of Mind.** This includes owners' concerns about issues that bear on the safety and health of the building occupants and their guests. A loose sign above an entrance doorway is a simple example of a safety issue that would require immediate attention before it falls and injures someone. Another example is exposure to mould and other undesirable environmental factors that will affect the long-term health of the owners.
- **Good Value for Our Money.** Owners want to ensure that their money is being spent efficiently and effectively. The bottom line is directly affected by the ways in which the owners' money is being spent every day on the operations, maintenance and repair of the assets. In this series of bulletins we will explore several financial principles and techniques.
- **Preservation of Our Real Estate Investment.** This includes the owners' concerns regarding the long-term viability of their real estate investment. For example a building that has been allowed to fall into a state of disrepair is unsightly and leaves a poor impression for prospective purchasers. In this series of bulletins we will demonstrate how building asset management contributes to the saleability and marketability of the suites.

- **A Comfortable Home for our Families.** This includes the owners' requirement for quiet and peaceful enjoyment of their homes. As an example, a noisy exhaust fan in a parking garage can cause much nuisance and distress to an owner that has a suite located near the fan. In this series of bulletins we will demonstrate how proper maintenance and care of the assets pays dividends to the owners in many different ways.
- **No Surprises.** Sudden, unexpected problems create tension in the community and special assessments can result in financial hardship for owners.

Building asset management provides the means, methods and techniques to provide for adequate planning in the best interest of the strata corporation.

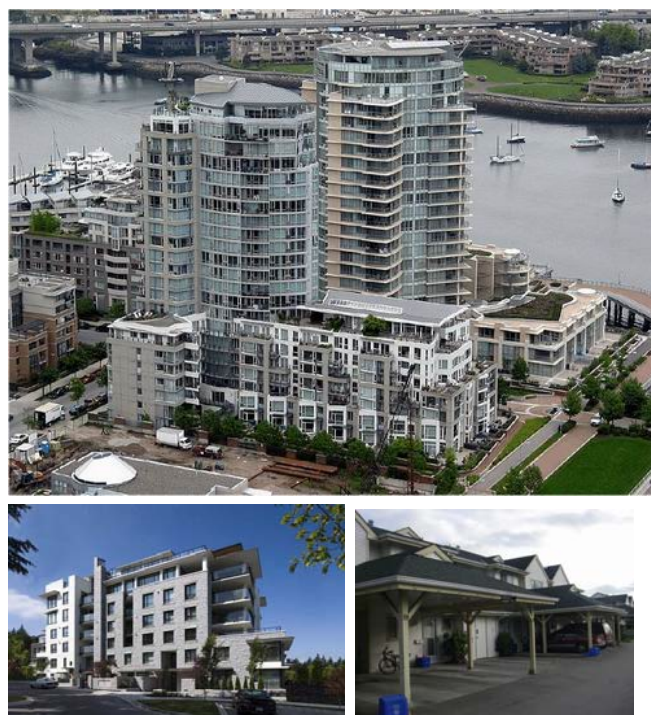
3. Building Life Cycle Stages

It is generally recognized that buildings move through a series of life cycle stages. The figure below provides a conceptual representation of five distinct stages associated with residential buildings.



While maintenance costs are generally consistent over the life of a building, capital renewals vary dramatically at different times. In this series of information bulletins we will look at the types of projects that arise at different stages in the lifecycle of buildings and how some owner groups have been able to make informed decisions about the allocation of resources to the maintenance, repair and renewal of the assets.

The requirements for effective stewardship of the building are similar for all types of strata corporations, whether it is a high-rise building, low-rise buildings or townhouse complex.



4. Building Investment Costs

Over the life of every building, the owners are regularly confronted with decisions regarding the expenditure of money to look after their buildings. The various types of costs associated with the assets can be distributed into three general categories.

- **“Keep-up” Costs.** These are costs associated with annual maintenance of the assets and operations of the building. Also included in this category are the annual allocations to the reserve fund in preparation for major renewal projects when assets reach the end of their useful lives.
- **“Catch up” Costs.** These are costs to correct any accumulated backlog of deferred maintenance. This category also includes special assessments to make up for any shortfalls in the reserve account. Unfortunately, many buildings find themselves having to deal with catch-up costs that have accumulated over the years either as a result of inadequate maintenance of the assets or inadequate allocation to the reserve fund. In later information bulletins we will explore some of the strategies that have been effectively used by some owner groups to avoid these types of backlogs or to deal with them once a backlog has occurred.

- **“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. For example, owners are sometimes forced to replace equipment because the original manufacturer no longer provides replacement parts. In one of the bulletins we will identify which assets are prone to obsolescence and how owners can prepare for it. We will also look at how owners have upgraded some of their assets by carrying out energy studies and other retrofits that improve upon the design and functionality of the building.

Keep-up costs, catch-up costs and get-ahead costs are explored in greater detail in subsequent information bulletins.

5. Asset Management Methodology

In order to fully develop an asset management plan owners need to periodically ask themselves the following series of questions about their assets. These questions help frame many of the decisions related to the planning, management, operations, and governance of the assets.

- **What Do We Own?** This question helps identify the assets that are collectively owned by the strata corporation. This is the starting point for any effective management of the assets. For example, “What type of roof do we have on our building?”
- **What Are Our Asset Worth?** This question helps identify the value of the assets, which form part of each owner’s real estate investment.
- **What is the Deferred Maintenance?** This question helps identify what work has not yet been carried out on the assets (such as maintenance and repairs), which needs to be done in order to preserve the value and functionality of the assets. Every building has some level of deferred maintenance and the challenge is to ensure that this does not jeopardize the long-term performance and reliability of the assets.
- **What is the Condition of our Assets?** This question helps identify the current physical state of each of the assets so that the owners know how much work needs to be done and how much money should be spent.
- **What is the Remaining Service Life of our Assets..?** This question helps identify when each asset will

eventually need to be replaced. It is an inescapable reality that nothing lasts forever.

- **What do we Fix First..?** This question helps establish priorities. With limited resources, every strata corporation faces the challenge of having to make decisions about the allocation of limited resources within each fiscal year.
- **How much Money do we Need..?** This question helps determine the appropriate annual reserve allocation to ensure that the reserve fund is adequate to meet future asset renewal requirements. This question also helps the owners think about the annual operating budget for maintenance and repairs.
- **Do we have Enough Money..?** This question helps identify any shortfalls in available funding for the maintenance, repairs and replacement of the assets.
- **What if..?** This question presents the owners with the impact of different decisions. For example, what will happen if we don’t replace the leaking roof this year; what additional costs will be incurred if we split our roof replacement projects into two phases to be carried out over two consecutive years?

The completeness and accuracy of the answers to each of these questions will indicate the level of sophistication of the existing asset management program and point to areas where further development and refinement is required. This series of information bulletins is intended to assist in this endeavour.

6. Asset Management Tools

Various tools are available to assist owners in establishing a framework to effectively plan for and manage their physical assets. In order to make informed decisions on how much money should reasonably be spent, owners need current and meaningful information regarding the physical condition and financial status of their assets.

- **Condition Assessment.** This provides information on the current physical state of certain assets. It helps to estimate the remaining life of the assets based on their current condition and estimated rate of deterioration.
- **Maintenance Plan.** This tool provides checklists of instructions on how to keep each asset of the building in good working order. The plan ensures that the necessary activities are carried out to achieve the full service life of the assets.

- **Reserve Study.** This is a long-range financial planning tool to ensure that adequate replacement funds are available when assets reach the end of their useful lives. Owners don't like surprises and reserve studies help mitigate against the financial burden that arises when major components need to be replaced.



In this series of information bulletins, we will also explore the different tools that are available to help building owners and property managers.

7. The Asset Management Team

Building Asset Management requires a team effort in order to succeed. From time-to-time the owners will require contributions from consultants and contractors to assist with the planning and management of the assets. To this end:

- **Engineers.** These professionals are primarily concerned about the changing physical condition of the assets over time and providing advice on large-scale repairs and renewals.
- **Accountants.** These professionals are primarily focused on tracking the expenditure of money on the assets over time and the availability of funds for future repairs and renewals.
- **Information Management.** These professionals provide the means for storing information about the assets in some appropriate database system so that the assets can be monitored over time.
- **Property Management.** These professionals help procure information to enable the owners to make informed decisions about the assets over time.
- **Contractors.** This group provides services to maintain the assets over their service life and to carry out periodic repairs.



The roles of the different consultants and contractors are addressed in detail in later information bulletins.

Information Bulletins

Listed below is a summary of some of the information bulletins that form part of this series.

- **Glossary of terms**
- **What are the different types of asset that we own?**
- **What is an asset inventory?**
- **What is a baseline database?**
- **What are the asset management tools?**
- **How long should our assets be expected to last?**
- **What causes our assets to deteriorate?**
- **What happens when our assets deteriorate?**
- **What is obsolescence and how does it affect us?**
- **What is a condition assessment?**
- **What is a warranty review?**
- **What is a maintenance review?**
- **What is a maintenance plan?**
- **What is a maintenance policy and how do we establish one?**
- **What is a reserve study?**
- **What is a funding model?**
- **What are the different maintenance strategies?**
- **How do we track our maintenance & renewals program?**
- **How do we bridge our maintenance plan into a maintenance program?**