

5 things you don't know about condo fees

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For many homebuyers, the issue of condo fees is as contentious as they come. In one camp are those who can't see past paying money into an association that may or may not use that money effectively; in the other are those who find value in what condo life provides or are not yet ready to buy a house. Unfortunately, what both sides in the debate tend to have in common is misinformation about condominium fees and how they *actually* work. If you own a condo or are thinking about buying one, here are some things you might not know about the fees.

1) They aren't all bad

Many homebuyers categorically refuse to consider a condo because of the fees alone. No fees are levied in a house, so condo fees are essentially a rip-off, right? Not so fast. What many people forget about owning any kind of home is that it entails a lot of financial responsibility. Roofs leak, foundations shift, washing machines overflow and the occasional baseball flies through the kitchen window. And whether you own a condo or a house of your own, *you* pay for all those unhappy little occurrences. The only difference is that in a condo, that financial responsibility is often shared with other owners.

In a condominium, the fees typically cover monthly expenses and utilities in the building, but they're also designed to collect money in advance to ensure that owners are held equally accountable for their investment. If you own your own home, you won't be forced to set aside money each month just in case your home requires an expensive repair (although that's a good idea), but you will be on the hook if something goes wrong. In addition, condo fees often go toward paying for things you'd have to shell out for as an owner of any property, such as insurance, and sometimes even heat, water and cable TV.

2) Lower isn't always better

No one wants high condo fees, but finding the building with the lowest fees isn't always the best bet either. Think of condo fees as a bit of a layaway plan for future improvements to the building, such as painting and necessary repairs. If there's no money set aside, that work either won't get done or owners will suffer a shake-down for additional funds in the form of a *special assessment*.

"You'll want to have a robust discussion with your realtor about what a condo's fees include," Farhaneh Haque, director of mortgage advice at TD Canada Trust advises.

And if you make an offer, make sure you put in a condition to review the condominium documents. "This will ensure you get the information you need about the condo and whether there is a healthy reserve within the building," Haque said.

In other words, if you want to know how expensive a building's condo fees really are, you'll have to find out everything you can about what they include and how much money the building needs for upkeep.

3) You may be paying for things you don't use

Condo fees are a lot like taxes: Sometimes, you don't personally benefit from the way the money is spent. That might explain why people tend to have such a strong reaction to condo fees, but the reality is that this is just a necessary evil of any collective asset. If your building includes a pool, a gym or a patio, your fees will go toward maintaining those common areas, even if you never set foot in any of them. The flipside, of course, is that if the building requires a major repair, you'll get to split that bill with all the other owners. According to Haque, it also means that you might derive additional value from your fees if they allow you to save on things you might otherwise pay for, such as that gym membership.

4) They can go up at any time

According to the 2012 TD Canada Trust Condo Education survey, 68 percent of condo buyers had no idea that their fees could increase. Well, here's news for you: Condo fees can increase at any time, and there's virtually no limit as to how high they can go. That's because it's up to the condominium's board of directors to ensure that enough money is being collected to pay for current expenses and save up for future repairs. If something unexpected happens to the building, or other common costs such as gas or electricity shoot up, condo fees might go up right along with them. Unfortunately, 38 percent of condo buyers also said that they weren't confident that they could afford a fee increase. Yikes!

If you're buying a condo or any other property, you should never be at the very limit of what you can afford. It's way too risky, and not just because of condo fees; interest rates, utilities and taxes can also increase significantly.

"Qualifying for a mortgage isn't the same as feeling like you can actually afford home ownership," Haque said. "When qualifying for a mortgage, look at your numbers in terms of all the possible fees. You should build in an inflation rate on the condo fees to see what your budget would look like if those fees were to increase. You also want to discuss interest rates with your lender, and what would happen if those were to increase down the road."

5) Condo fees are included in your mortgage calculation

According to Haque, 50 percent of a building's condo fees are folded into the calculation that determines whether your income is sufficient enough to cover your mortgage and other necessary expenses. This means that a condo fee affects the size of the mortgage you can qualify for. So, while owning a condo can help you to build some real estate equity, it's worth weighing this desire against waiting longer and saving a larger down payment for a house of your own. And while the costs here aren't likely to be lower compared to condo fees, you'll have full control over what repairs and improvements are made to the property when it's exclusively your own.

The bottom line: You can still pay out of pocket

Just because you're sharing a wall with a set of neighbours doesn't mean you're a renter. Owning a condo is just like owning any other home - you're responsible for maintaining it. The major difference is that paying for repairs might be a lot more complicated. For some people, the benefits of living in a condo far outweigh these inconveniences. Just be sure that you choose your condo carefully and assess what its fees really amount to. As with all things financial, condo fees aren't just about what you pay, they're also about what you get in return.