



It starts with a capital plan - by Gustavo Rusconi

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Every building in every city needs a capital plan that identifies ongoing maintenance and operating costs projected over the next five to 10 years, along with estimated capital improvement costs for projects that enhance and appreciate the value of an asset. In New York City, however, we recommend preparing capital plans on a much more frequent basis in order to comply with a host of New York City building laws that address issues beyond basic maintenance and operations.

For co-ops and condominiums, it is equally important to have a reserve study that identifies annual costs and available funds, as well as financing options. Reserve studies may also include building surveys and recommendations from architects and/or engineers, categorizing potential maintenance issues, estimated costs of repairs, and timelines for upgrades. Most importantly, the studies provide a template for upcoming capital projects. Being prepared inherently protects shareholders and unit owners from unexpected increases in maintenance or common charges, and exposure to prolonged assessments.

The Impact of Local Laws on Capital Plans

While it is part of the process for building management and staff to regularly inspect mechanical systems and building infrastructure, including the boiler, HVAC system, elevators, and sprinklers, etc., many of the city's local laws mandate cyclical inspections and repairs of the entire building plant. For example, Local Law 11, also known as the Façade Inspection Safety Program (F.I.S.P.), requires five-year cycles for inspections and, where necessary, repairs.

The garage safety law of 2021, i.e., Local Law 126, calls for filed reports every six years, starting in 2024 in Manhattan and Brooklyn and by 2026, Queens, the Bronx, and Staten Island. Co-ops and condominiums with on-site garages, whether accessory or transitory, face considerable penalties for not complying. Being prepared for this most recent law will be crucial in preventing staggering penalties.

The 2019 Climate Mobilization Act, also known as Local Law 97, mandates buildings from 25,000 s/f reduce their carbon footprints by 25% by the end of 2024; and the reductions rise incrementally through 2050. Building owners and co-op and condominium boards are currently encountering many decisions regarding viable ways to seal building envelopes and bring aging infrastructures up to code. Needless to say, nearly all of the solutions come with hefty price tags!

The key here is to work with engineering firms specially equipped to provide energy analyses to determine carbon output and solutions. Not surprisingly, recent changes in energy usage requirements and climate change laws have resulted in the establishment of a new subset of energy-certified engineering firms.

So beyond planning for basic operating and maintenance costs, buildings need to prepare for additional expenses that stack up in order to comply with local laws, most of which are fortuitously on staggered inspection cycles. Capital plans should outline estimated consultant fees, filing fees, repair fees and, to meet compliance, such extra costs as sidewalk sheds, including erecting and

removing. The more recent costs for local law compliance have to be addressed in addition to basic operating and maintenance costs for roofs, elevators, heating systems, domestic water, boiler upgrades, air-conditioning, utilities and, of course, labor!

While a relatively recent spate of new laws from the Department of Buildings has upped the ante on wellness and sustainability improvements, the unfortunate consequence will be escalating costs for maintenance and required replacements. The estimable goal of all of these local laws is to eventually reduce operating costs, while making our buildings safer and contributing to a more sustainable environment.

Rising interest rates and inflation will eventually abate, but new laws designed to protect people and the environment will continue to be expensive, at least for the short-term. So, if there is a light at the end of the tunnel, it is that careful planning, both in the short-term and long-term, will help reduce operating costs and contribute to a safer, healthier city. Complying with so many new and existing regulations is also why it is critically important to have a comprehensive capital plan that budgets expected maintenance and operating costs -- along with expenses incurred by new laws -- and reserve plans that can mitigate unanticipated costs.

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