

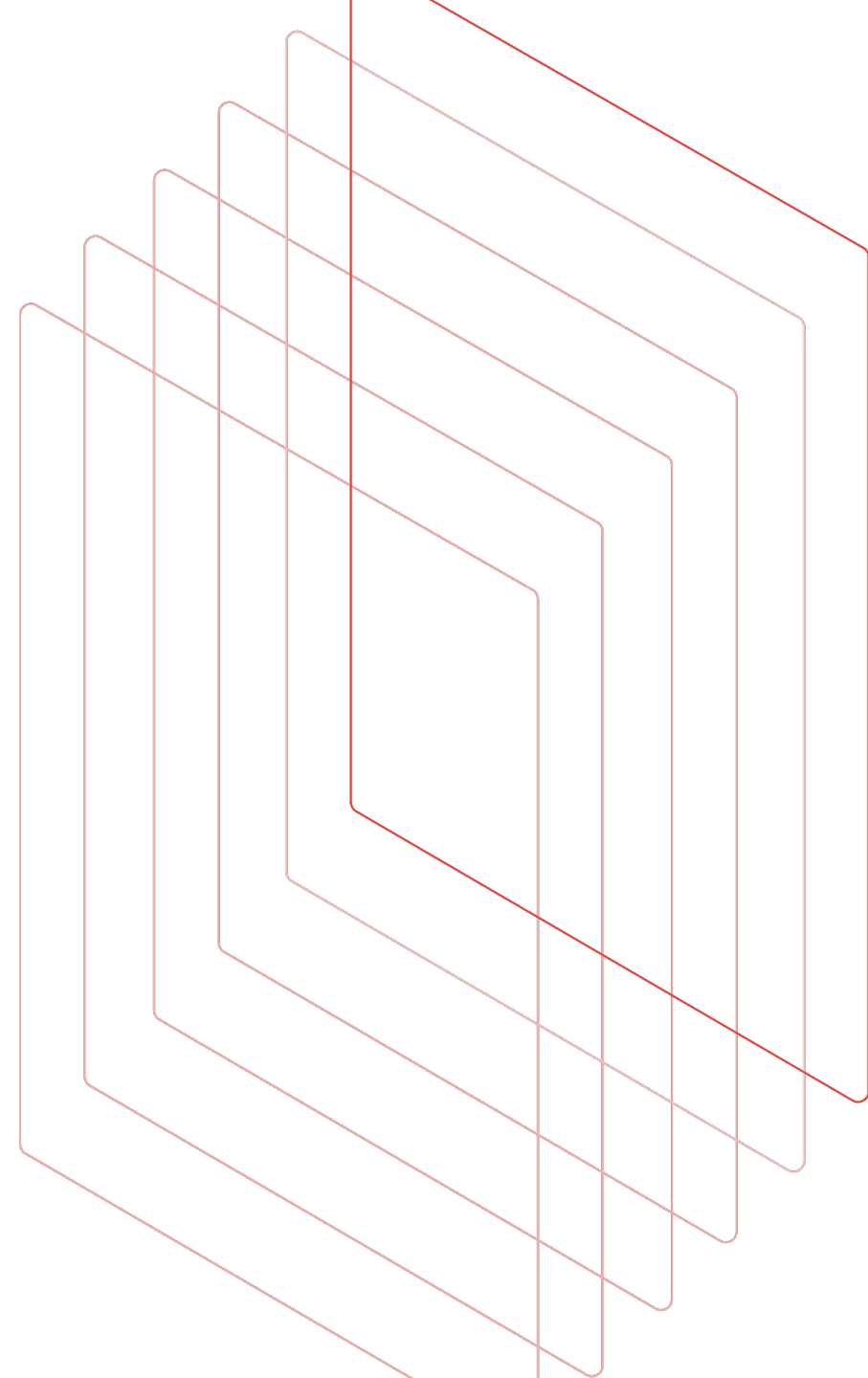
Bang For Your Buck in Strata Capital Works



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CEO



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Bang for your buck

Who started that?

Charles Erwin Wilson

US Secretary of Defence – 1953-1957

Also CEO, General Motors



Understanding value for money or **'Bang for your buck'**

Value for money is a balance between:

- › *Cost*
- › *Efficiency*
- › *Effectiveness*

Confusion can arise from:

- › *Subjective value*
- › *Intangible factors*
- › *Different interpretations*

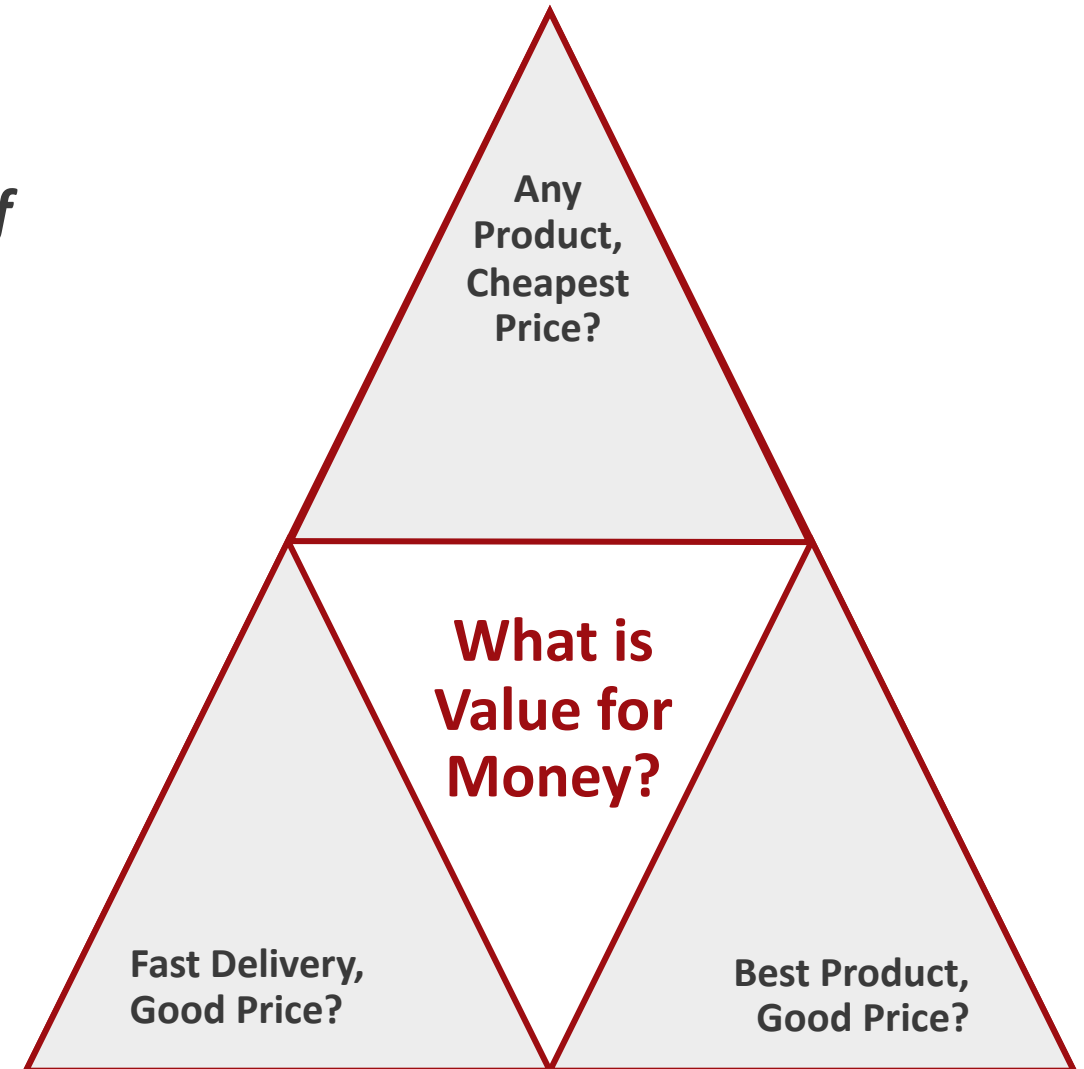


Which brings us to: **Capital Works Funding Principle #1**

Because everyone will have a different idea of what “value” is:

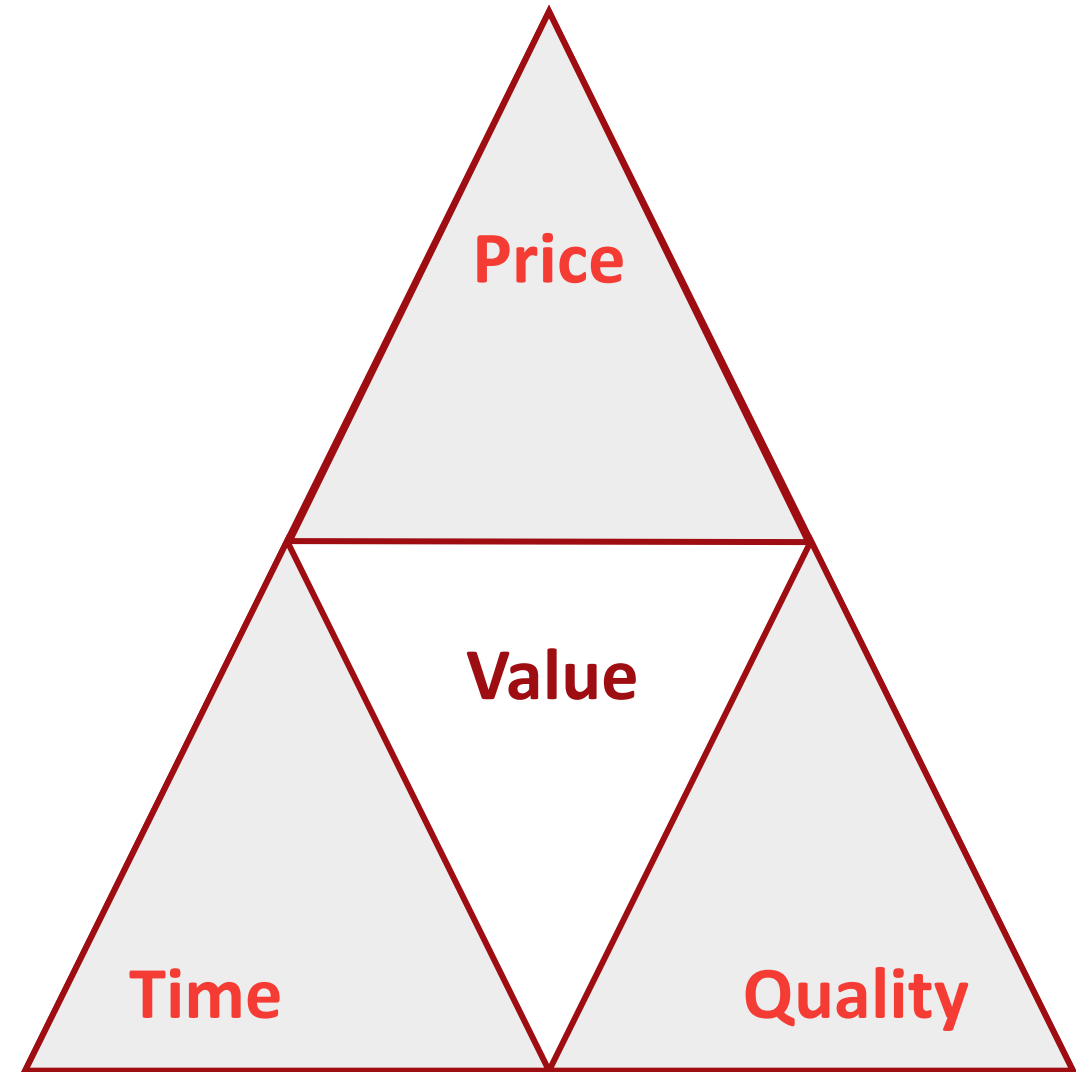
- › *Work out your decision metrics in advance!*
- › *What’s important to you?*

- *Function?*
- *Aesthetic?*
- *Replace?*
- *Improve?*
- *Low impact on owners?*
- *Working hours?*
- *Safety?*
- *Price?*
- *Quality?*
- *Time?*

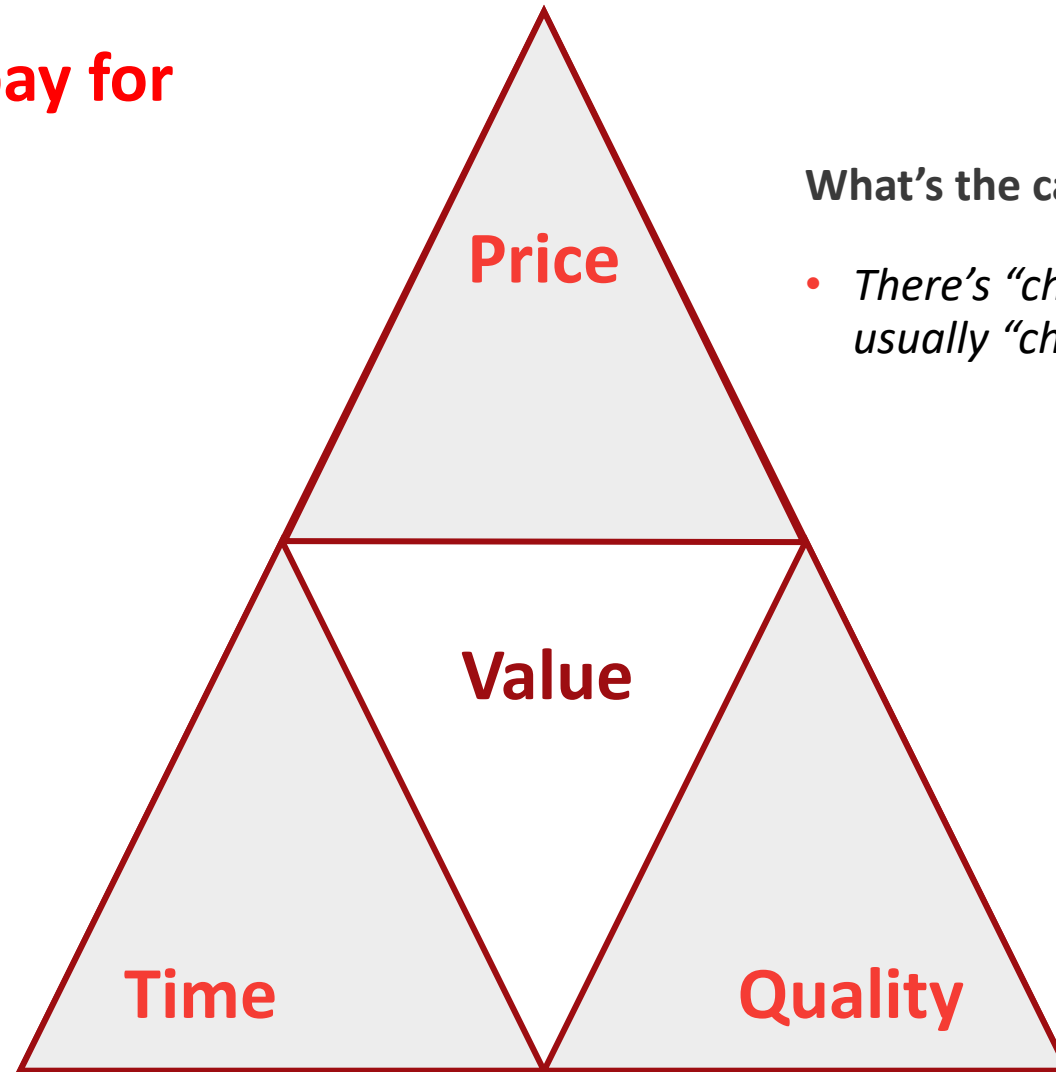


It's not a principle... It's a Fundamental law!

- › You can only ever pick two to prioritise
- › You can see the problem if your committee is not aligned on what they value
- › What if some committee members value price, others value time and the rest value quality?



Fast, good, cheap...
You get what you pay for



What's the catch?

- *There's "cheap", but that's usually "cheap and nasty"*

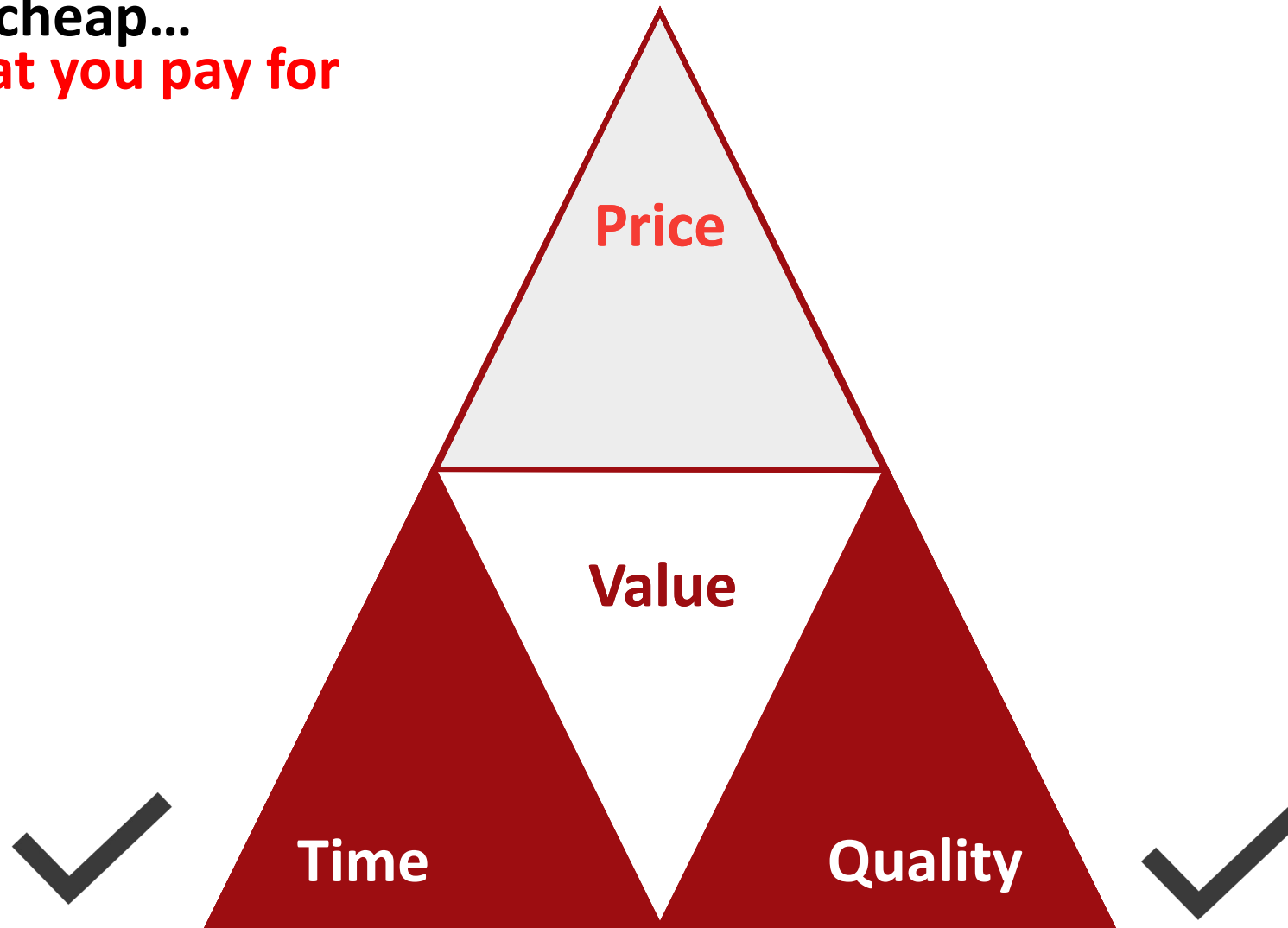
Measure twice, cut once!

- *It's all in the planning
put the effort in BEFORE
the trades turn up*

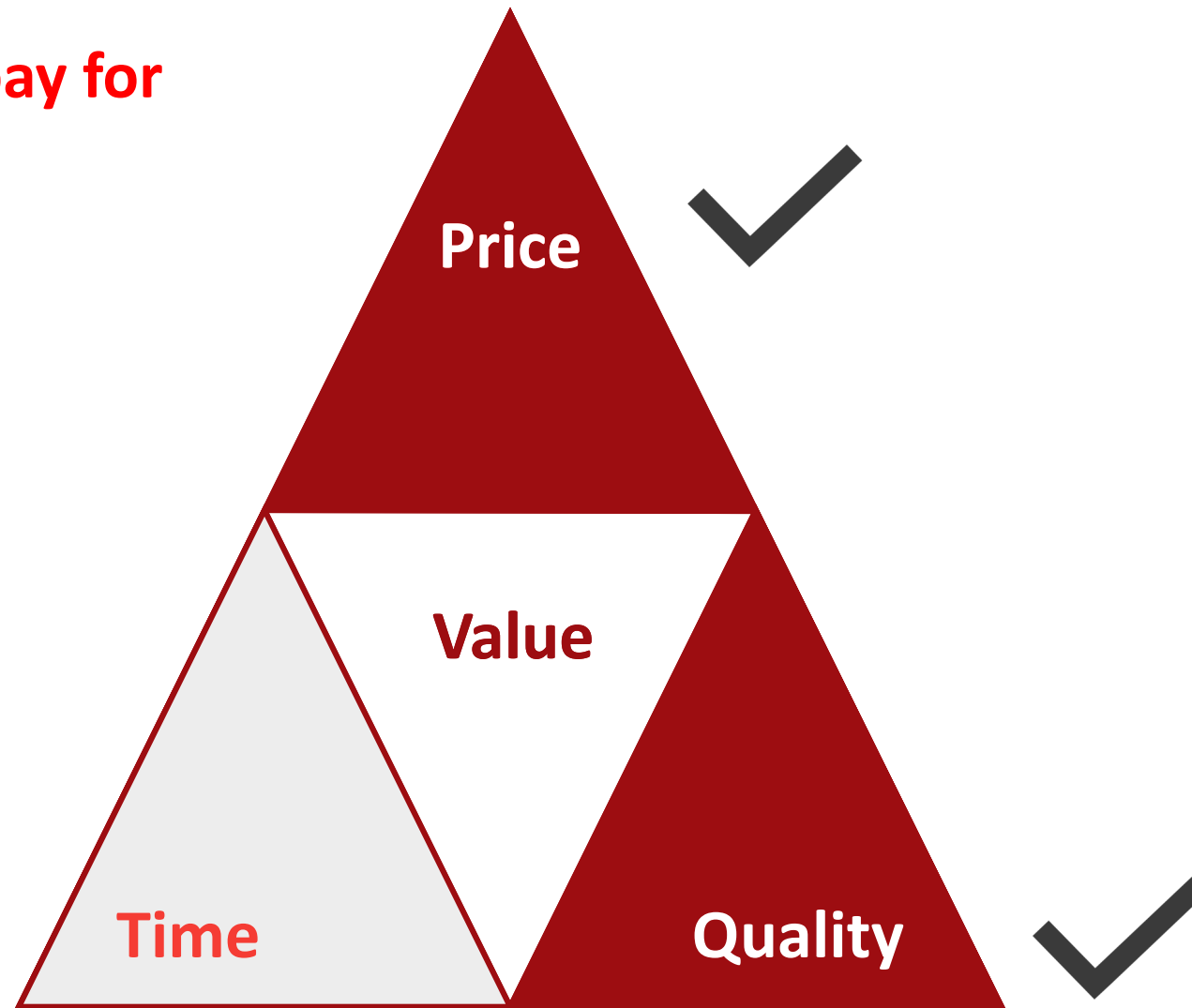
**It's going to cost and it's going to
take an investment in time:**

- *Research, planning decision
making, engagement and
evaluation*

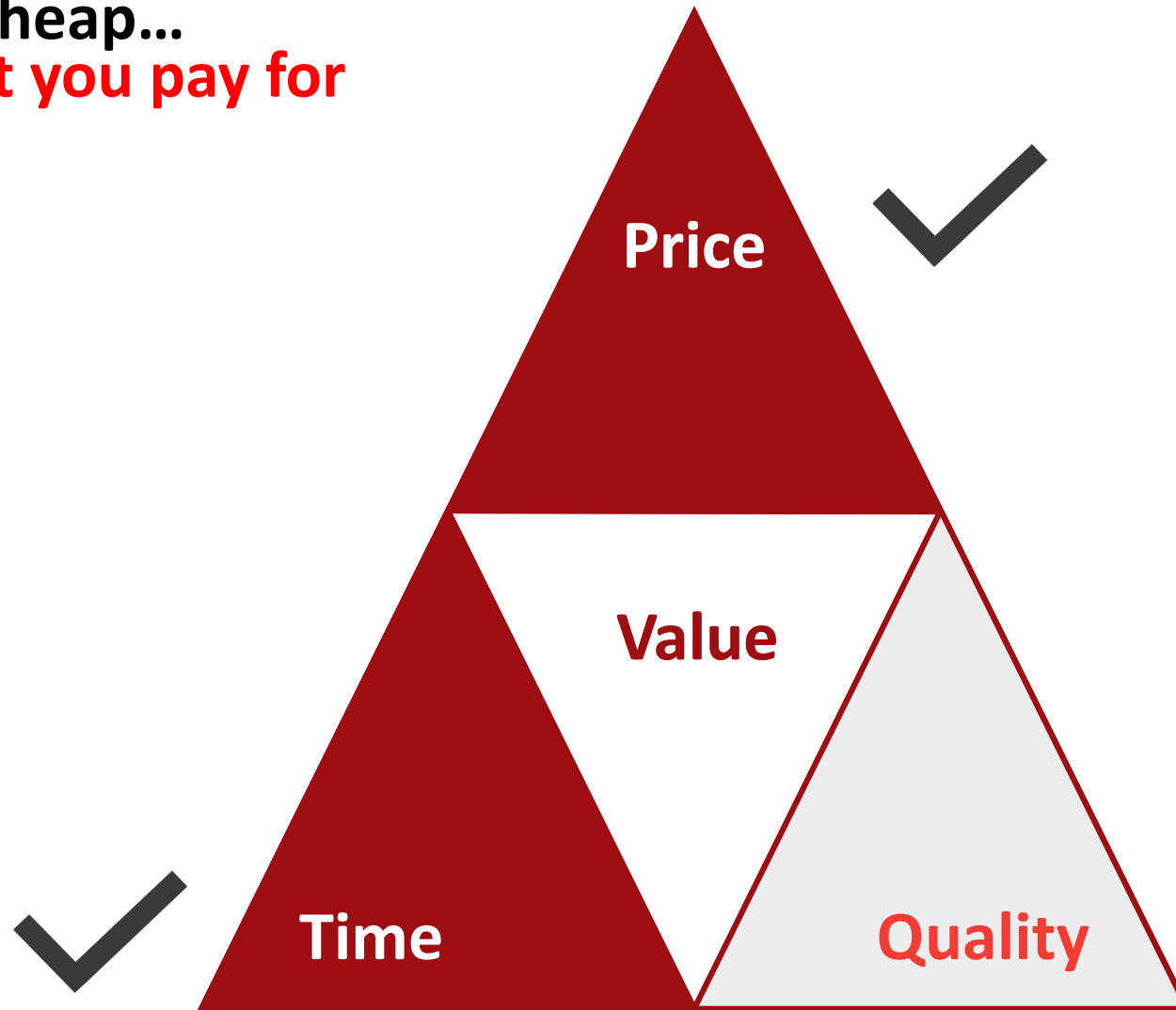
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It's not about cost It's about investment

Develop an investment perspective to avoid the pitfalls of capital works decisions in strata

- › *Thinking cost or expense = Cheapest*
- › *Thinking investment = Return on that Investment*



Which brings us to:

Capital Works Funding Principle #2

How to make the right decision for your asset?

- › **Deciding between projects:**
Is the \$50,000 or \$500,000 project best?
- › **Choosing a contractor:**
Should we engage the \$100,000 or \$1100,000 contractor?
- › **It's about investment!**
Whether you are fixing some pavers or putting a penthouse on top, you are INVESTING in your property



Return on Investment

Project A vs Project B

Project A

Investment:	\$50,000
Value per lot:	\$6,000 per lot (10 lots)
Total value created:	\$60,000
Excess value over investment:	\$10,000
ROI:	$\$10,000 / \$50,000 = 20\%$

Project B

Investment:	\$200,000
Value per lot:	\$30,000 per lot (10 lots)
Total value created:	\$300,000
Excess value over investment:	\$100,000
ROI:	$\$100,000 / \$200,000 = 50\%$



Return on Investment

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Restoring value

water ingress example

Works Required:

- › Water Ingress
- › Extensive works on balconies, stairwell, roof
- › 2 units were unable to be occupied due to water ingress
- › 5 lots
- › \$231,000.00 to restore value per lot by \$60,000
- › Total value created was \$300,000
- › Excess of value created over investment is \$69,000
- › ROI is $\$69,000 / \$231,000 = 30\%$

Location: Inner West

- › \$231,000
- › ROI 30%



Understanding the role of borrowing

How did you pay for your apartment?

Could you afford it?

Did you pay the full amount in cash?

OR

Did you have \$100,000 and borrow the rest?

Why did you borrow?

- › *Because you had to*
- › *Because you wanted the apartment and there was no other way*
- › *Because borrowing was an enabler*
- › *You included the cost of borrowing in your investment decision*



The true cost of money and investment decisions

- › **The underlying assumption:**
Cash is free, debt costs money
- › **The reality:**
All money has a cost and all sources of finance have a cost
- › **Your \$100,000 deposit had a cost**
You chose to sacrifice to save
- › **Your \$400,000 mortgage has a cost**
You chose to repay your mortgage, including interest and fees
- › **An investment decision was made**
The return, whether emotional or economic, from this \$500,000 investment is going to be better than your other options



Investing at a cost, **there is no free money**

Everything is funded at a cost!

- › Your capital works fund is **NOT FREE!**
- › Your special levy is **NOT FREE!**
- › Your strata finance is **NOT FREE!**



And then there is tax... but what's the after-tax scenario?

› Investors

All investors thought about tax when they bought their unit

› Owners

All owners in residence have the advantage of not paying capital gains tax when they sell

› Cost of levies

What is the after-tax cost of your levies

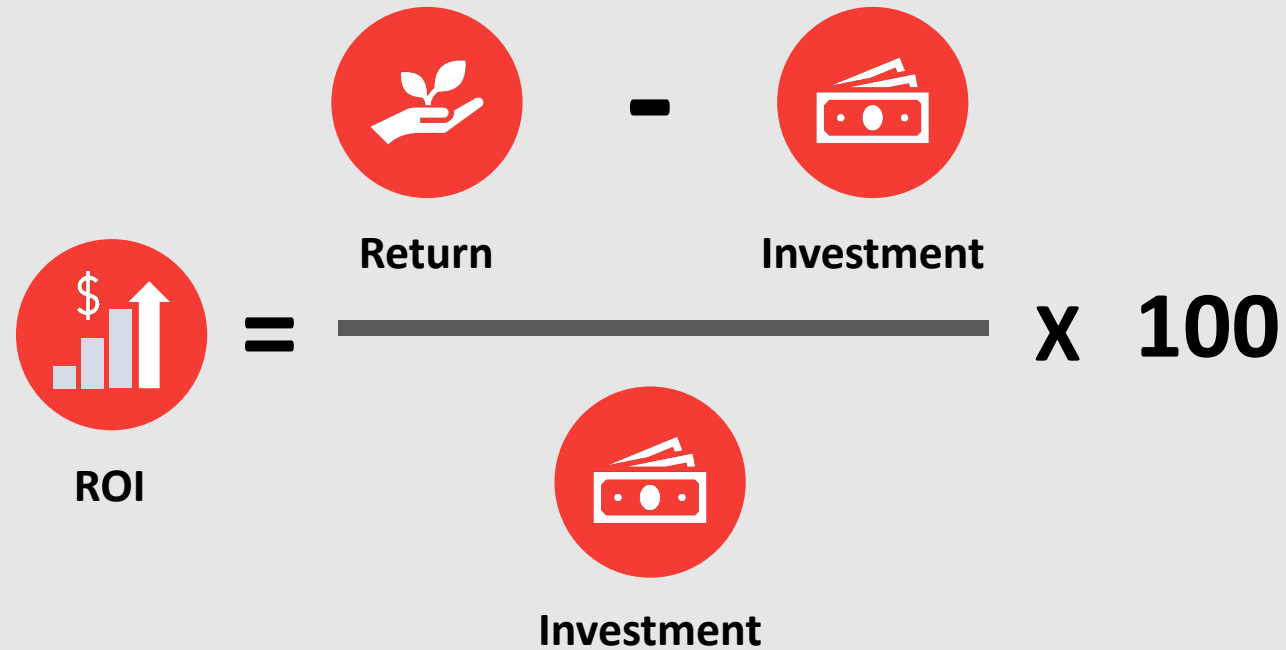
› Thinking After-Tax

People are thinking pre-tax, but they should think AFTER-TAX!



Calculating Return on Investment

The formula



The diagram illustrates the formula for calculating Return on Investment (ROI). On the left, a red circle contains an icon of a bar chart with a dollar sign and an upward arrow, labeled "ROI". This is followed by an equals sign. To the right of the equals sign is a fraction. The numerator of the fraction consists of a red circle with a plant growing from a hand, labeled "Return", followed by a minus sign and another red circle with a stack of money, labeled "Investment". A horizontal line separates the numerator from the denominator. The denominator is a red circle with a stack of money, labeled "Investment". To the right of the fraction is a multiplication sign followed by "100".

$$\text{ROI} = \frac{\text{Return} - \text{Investment}}{\text{Investment}} \times 100$$

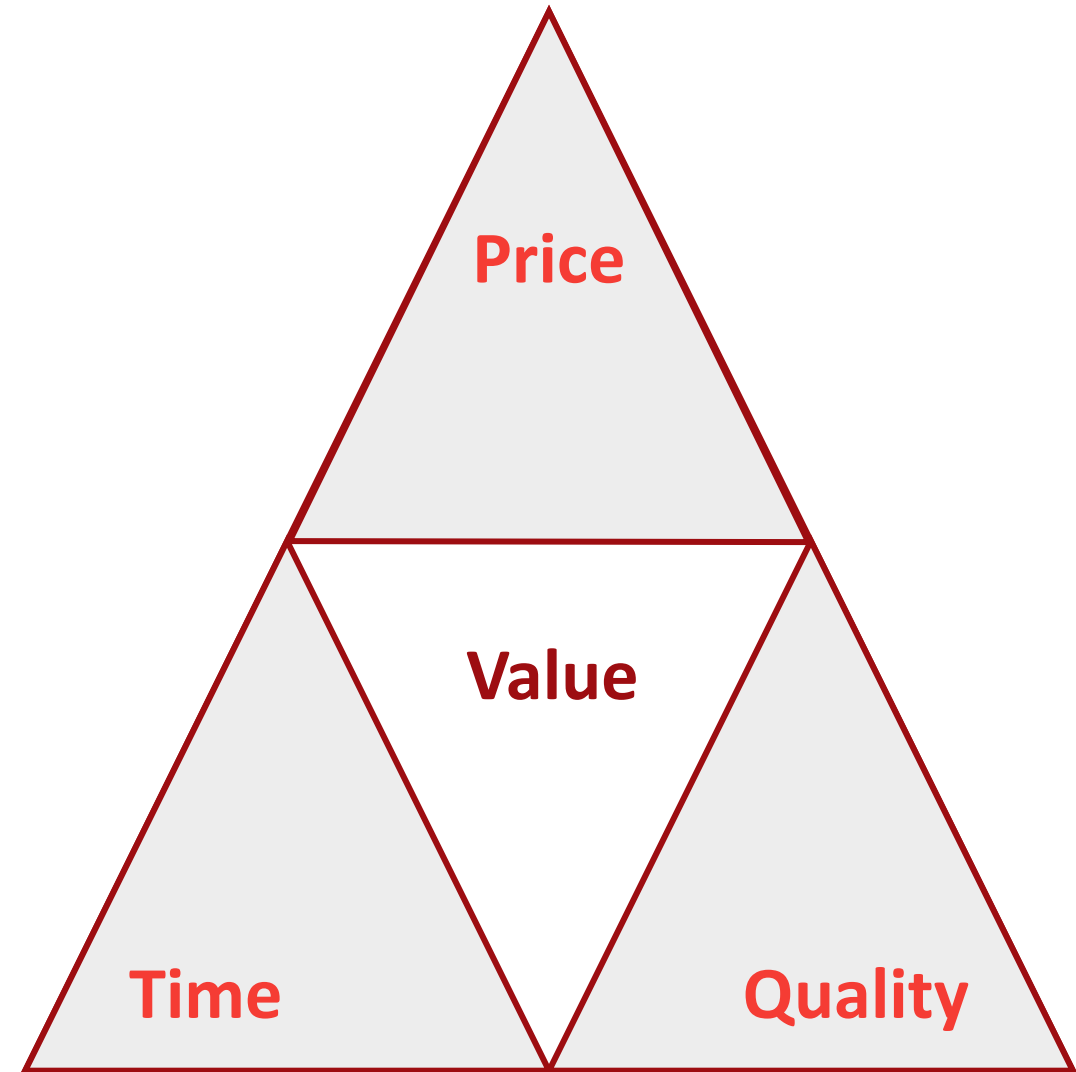
Common property, why invest in it

- › Legal duty to “repair and maintain”
- › Insurance risks if property isn’t maintained
- › Occupational Health and Safety considerations
- › Reducing legal liability from accidents
- › Personal satisfaction and return on investment
- › Viewing work as an investment, not a cost
- › The bank and the strata piggy bank
Include both “external” and “internal” funding in the investment cost



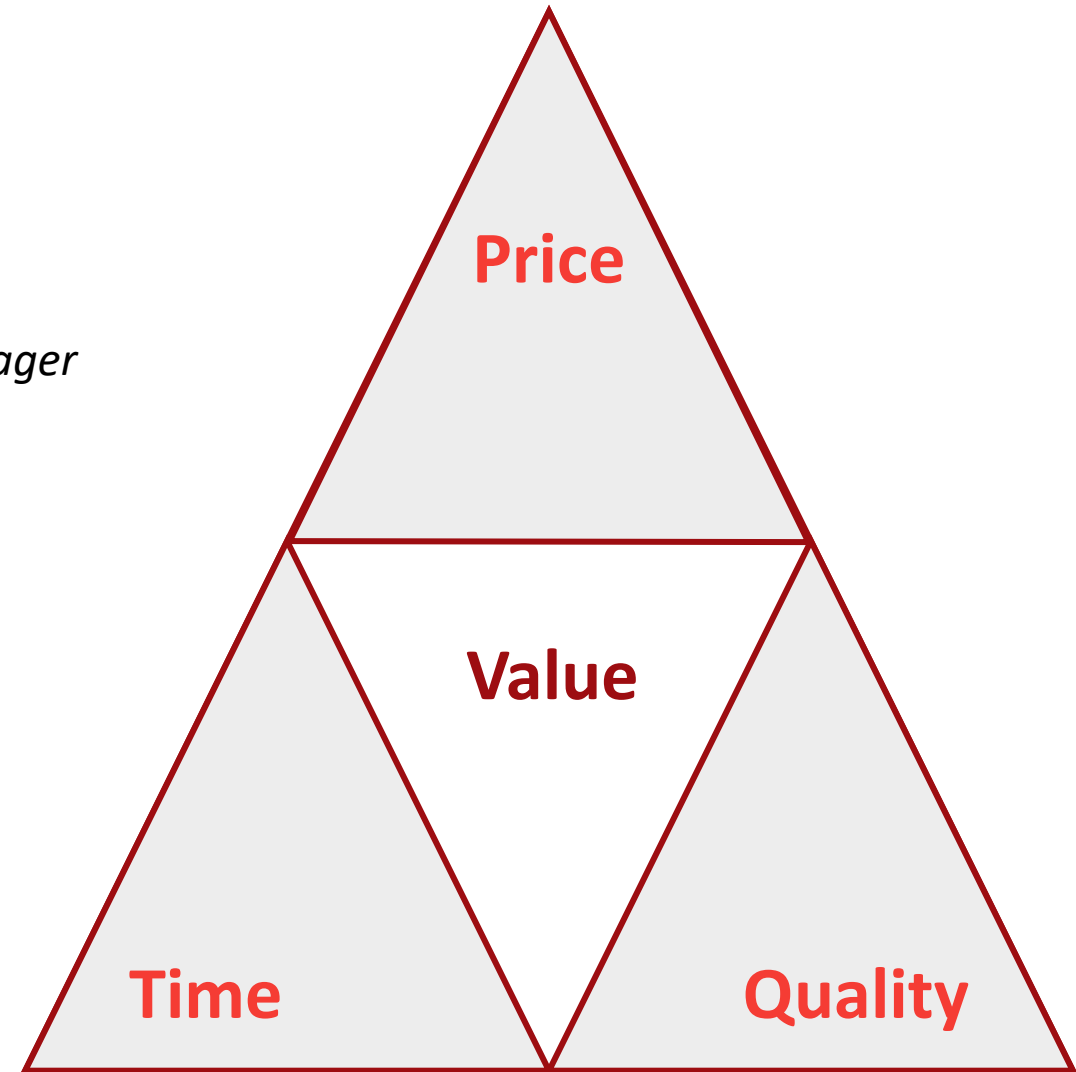
Money isn't free and projects don't just happen

- › We referred earlier to the Project Triangle:
Price, Quality and Time
- › There's only one solution:
Project Management
- › Projects do not just happen:
They must be managed



Who are the project managers and what are the associated risks

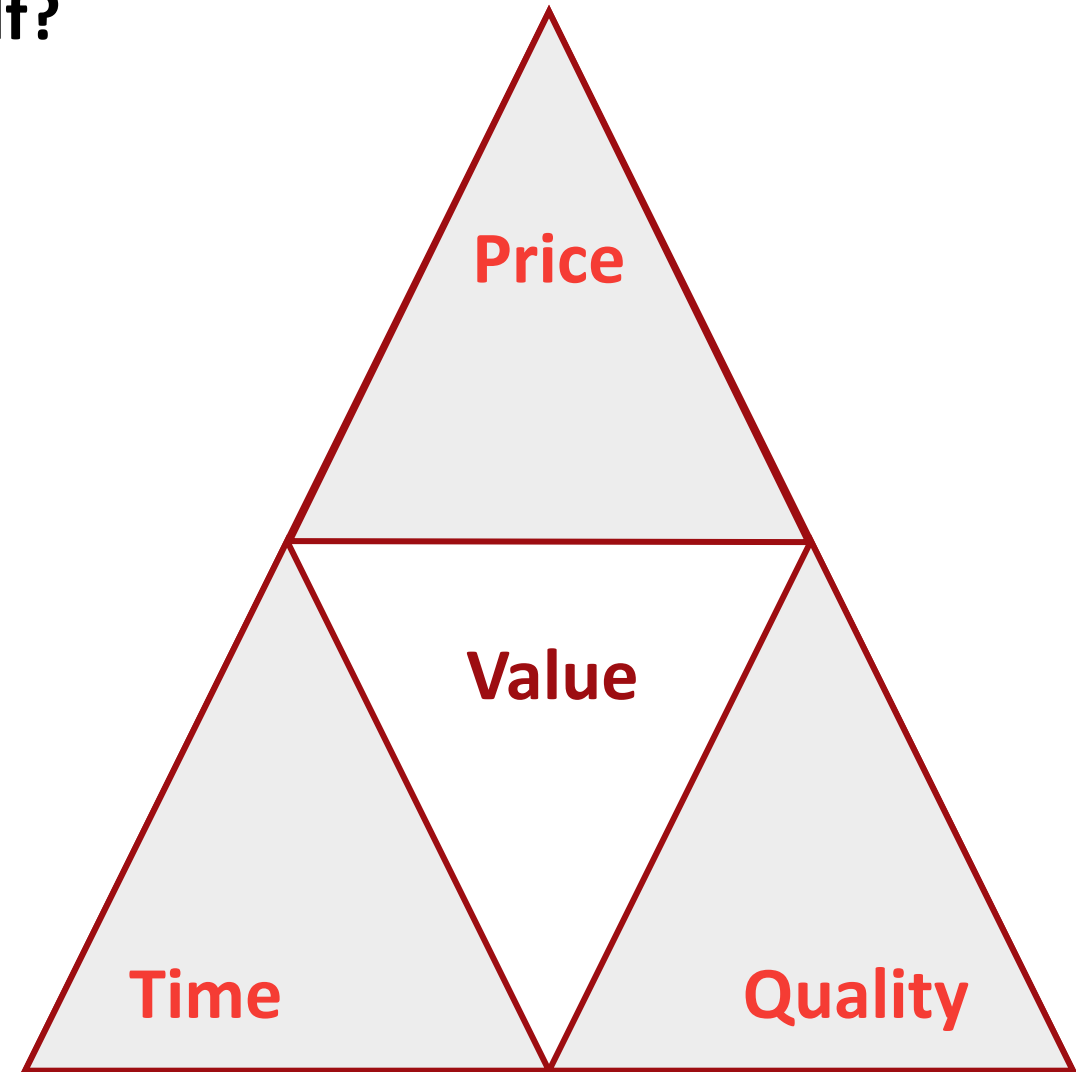
- › **Potential Project Managers:**
Committee members, owners with special interests, strata manager, professional third-party project manager
- › **The challenges of self-management:**
Accountability, resource allocation, legal liability, skill requirements, role clarity
- › **A lack of good project management can mean many more problems**



Why not manage the project yourself?

What are the risks?

- › **Accountability:**
If issues arise, the blame falls on you
- › **Resources:**
Often limited time for project oversight
- › **Legal Liability:**
Check your legal liability
- › **Skills:**
Assess your capabilities realistically
- › **Position:**
As an owner or committee member, decisions impact you directly



How are most strata decisions made

Choosing the right contractor

Guess how most strata decisions are made

- a) \$100,000
- b) \$96,000
- c) \$110,000



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c) \$110,000

You guessed it! B wins!



How to make the best choices for your strata

- › Ask them and yourself these questions
- › Get a professional to help you choose
- › Ask for references (and check them!)
- › Inspect their other active and completed projects
- › Are they a member of organisations that you would expect them to be members of?
- › Conduct some industry and media research

Contractor Evaluation

- › **Project Duration:** How long will they take?
- › **Cleanliness:** Will they maintain a clean work environment?
- › **Respectfulness:** How well do they respect owners?
- › **Responsiveness:** How quickly do they rectify problems? How often do they need to go back to rectify issues?
- › **Financial Stability:** Is there a risk of them abandoning the project? Will they still be around to rectify issues?
- › **Transparency:** Are there any undisclosed kick-backs or associations?

The cost of time **in strata**

- › **Challenges in Strata**

Legislation changes, COVID, defects, supply chain issues, inflation and contractor shortage

- › **Hindsight**

Unpredictable challenges occur, but delaying work inevitably leads to higher costs

- › **Prompting a decision to proceed**

If legal obligations, insurance risks or maintaining the value of your asset don't prompt action, then 'Bang for Your Buck' should

Make no mistake, delays equal higher costs!



Thank you



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Jenine Garcia
Senior BDM

Speak with our expert team



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