

STRATA GUARDIAN + LOOKUPSTRATA



LookUpStrata

NAT WEBINAR: A HEALTHY

SINKING FUND MEANS

HEALTHY PROPERTY VALUES

WWW.LOOKUPSTRATA.COM.AU



**STRATA
GUARDIAN**

Who is this presentation for?

- ▶ You have a strata titled property and are wondering about:
 - ▶ How your scheme can affect your property valuation
 - ▶ Whether you have enough in your sinking fund
 - ▶ Ways to check on the health of your scheme/plan
- ▶ You are looking at buying a strata titled property
- ▶ You are a strata manager and wondering how to convince your clients of the importance of having healthy scheme/plan finances

An industry that cares and contributes.

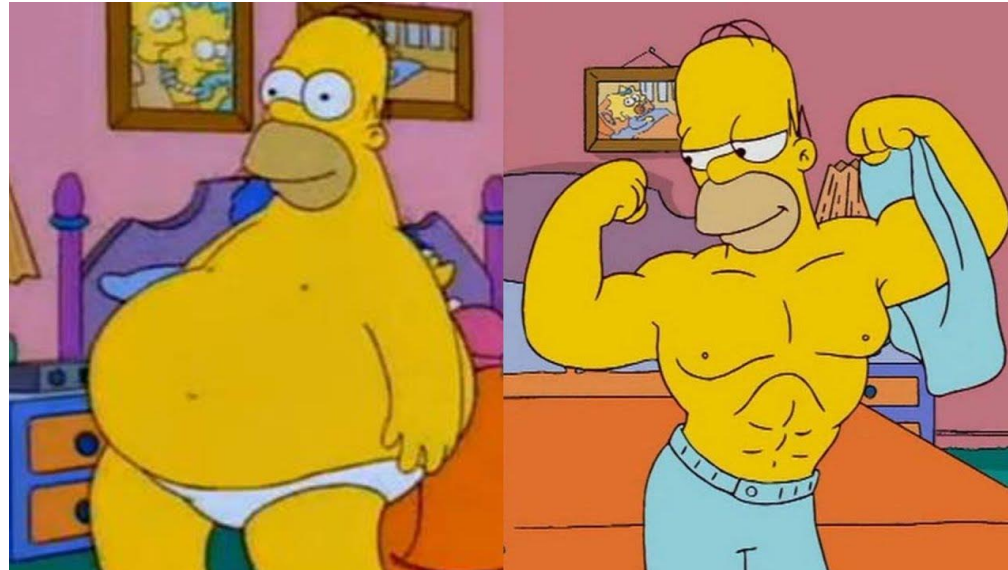


A quick reference guide

State	Strata Entity Name	Short Term Account (Admin)	Long Term Account (Sinking)
New South Wales	Owners Corporation	Maintenance Fund	Capital Works Fund
Queensland	Body Corporate	Administration Fund	Sinking Fund
Victoria	Owners Corporation	Maintenance Fund	Maintenance Fund
Western Australia	Strata Company	Administrative Fund	Reserve Fund
Aust. Capital Territory	Owners Corporation	Administrative Fund	Sinking Fund
South Australia	Strata Corporation	Administrative Fund	Sinking / Reserve Fund
Tasmania	Body Corporate	Administrative Fund	Maintenance Fund
Northern Territory	Body Corporate	Administrative Fund	Sinking Fund

Why is the financial health of building worth worrying about?

- ▶ Peace of mind
- ▶ Avoiding surprises
- ▶ Shows good management
- ▶ Attractive to buyers
- ▶ RESALE VALUE



How do schemes and plans become so unhealthy?

- ▶ Poor oversight and planning - out of date maintenance plans
- ▶ Mismatch between what is saved and what is required
- ▶ Desire by some owners to minimise contributions
- ▶ No appetite to save money in a 'bucket' - 'will pay it later'
- ▶ General apathy by owners/committee
- ▶ Running the building 'into the ground'



Signs of poor health

- ▶ Low / no sinking fund balance
 - ▶ Can vary on a schemes needs
- ▶ Irregular reviews of maintenance plans
- ▶ Lack of transparency for owners
- ▶ History of special levies
- ▶ Loans against the building



Red Flags

- ▶ *‘We’re keeping our fees as low as we can, to benefit all owners’*
 - ▶ Bodies corporate are not like corporations where it is all about the bottom line. They are meant to spend money, as required, to comply with their statutory obligations.
- ▶ *‘We just don’t have the money for it at the moment’*
 - ▶ It is irrelevant if the body corporate doesn’t have the money. They need to find it and that position has been confirmed in caselaw.
- ▶ *‘Ideally, we’ll come out ahead this year and be able to refund owners’*
 - ▶ There is no provision for a body corporate to refund owners. Subsequent budgets can be adjusted to reflect unspent funds, if necessary, although again, there really should be no such thing as unspent funds

The benefits of being healthy

- ▶ More funds can mean more choices
- ▶ Higher levels of confidence in management
- ▶ A more harmonious community
- ▶ Resilience to adverse conditions
 - ▶ Ability to secure trades quickly in a disaster
- ▶ Visibly better-looking common property
- ▶ More attractive to more buyers = more bids!



Why is the financial health of a building worth worrying about?

— Opinion

Underfunded apartment blocks will cost you in the long-term

Jimmy Thomson

Updated Jan 31, 2019 - 9:34am,
first published at 9:30am

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Sisters In Law: How homeowners can deal with dodgy strata finance management

A Sydney woman has uncovered the “dire straights” her apartment building is in, after uncovering a huge financial problem.

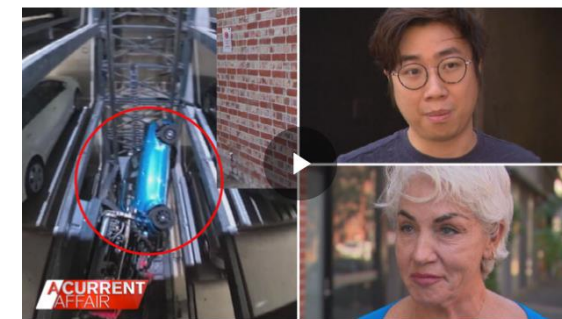
Alison Barrett and Jillian Barrett

3 min read March 20, 2022 - 11:20AM news.com.au



Residents bleed money while cars remain trapped in stacker nine months on

By Sam Cucchiara | A month ago



Residents bleed money while cars remain trapped in stacker nine months on.

9NEWS

Mascot Towers' residents vote to pay \$7 million in levies as repair bill blows out to \$20 million

By Liv Casben

Posted Thu 22 Aug 2019 at 8:23pm, updated Thu 22 Aug 2019 at 10:19pm



Why is the financial health of a building worth worrying about?

Domain

Investigation Property News International students

Sydney apartment investors fear debt trap as levies skyrocket



By Anna Patty

February 8, 2022 – 11:50am

Save Share

Investors from retirees to single mothers on low incomes fear losing their properties after their strata levies jumped from under \$2000 per quarter to more than \$10,000 for building repairs they had no say in approving.

PROPERTY LISTINGS



By Negotiation
Cowra NSW 2794

3 1 2



“This is a cautionary case of the consequences of long-term chronic under maintenance of a building by an owners’ corporation, resulting in the need for immediate works to ensure the building’s safety, structural integrity, and safe habitation.”

Case Study - A poorly funded and maintained building...

- 8 Storey Apartment Building, Sydney
- 88 Apartments with Basement Carparking
- Constructed 2009 (13 Years Old)
- \$170,000 in Capital Works Account
- Levy as at 2021 \$37,000 per annum (Approx \$420 / lot)
- Current issues:
 - Building not painted since construction
 - Cracking/render/spalling issues
 - Damage to unit fire doors
 - Failures to podium membrane
 - Carpet to foyers and lobbies requires replacing
 - Intercom system requires replacement
 - Hot water systems failing
- Likely costs over next 1 - 3 years \$750,000
- 2021 Levy \$37,000 per annum
- Likely levy scenario between now and next paint cycle:
 - 10-fold increase in levies for immediate works and then a reduction but a significant increase over current levies.
- Average apartment sell price \$710k - \$740k



Case Study - A well-funded and maintained building...

- 13 Storey Apartment Building, Sydney (3 sites down from previous example)
- 113 Apartments with Basement Carparking
- Constructed 2013 (9 Years Old)
- \$320,000 in Capital Works Account
- Levy as at 2021 \$165,000 per annum (Approx \$1460 / lot)
- Current issues:
 - Building due for paint in 3 years
 - Some water ingress into basement currently being addressed
 - Internal furnishings etc in good condition, forecast replacement 3-4 years
 - Planning for charging stations
- Likely costs over next 1 - 3 years \$636,000.00
- 2021 Levy \$165,000 per annum
- Likely levy scenario between now and next paint cycle:
- Standard inflation increase in levies for immediate and ongoing works
- **Average apartment sell price \$780k - \$810k**



The reality

- ▶ Buyers are becoming savvier.
 - ▶ “We are in the age of awareness”
 - ▶ Further investigations are being made into schemes before purchasing
 - ▶ Higher levels of media interest in problematic areas
 - ▶ Increasing use of strata reporting services

The health of a scheme's finances are now under more scrutiny than ever before, and buyers are not afraid to lower offers to compensate for the additional risk.



What are in the Strata Reports?

- The amount paid in quarterly strata fees, which will then be divided into administrative and 'sinking' funds (a fund to cover any major repairs).
- The sinking fund balance.
- Additional special levies, past or planned, to cover known problems.
- Any building issues that have been fixed, are scheduled to be fixed, or deferred because they are difficult to fix.
- Information about the owners' corporation, unit entitlements, financial reports, by-laws, any council notices or legal actions, and insurance.

Where can I find the information?

Strata reporting requirements	Where can I source this information?
<ul style="list-style-type: none">• Strata plan number and address• Registration date• Community or precinct scheme plan number and registration date (if applicable)	<p>These fields will be pre-filled, where possible.</p> <p>(NSW Online Strata Search)</p>
<ul style="list-style-type: none">• Contact details of the owners corporation chairperson, secretary, strata managing agent and building manager (if any)• Nominated strata scheme contact for emergency services• For apartment buildings, number of storeys above ground• Number of lots in the scheme and their use (residential, commercial, retirement village, utility)• Whether a strata renewal committee has been formed and date formed (if applicable)	<p>To be supplied by the owners corporation secretary or strata managing agent.</p>
<ul style="list-style-type: none">• National Australian Built Environment Rating System (NABERS) rating/s (if applicable)	<p>May be available on the NABERS website or contact nabers@environment.nsw.gov.au</p>
<ul style="list-style-type: none">• Last Annual General Meeting (AGM) date• Date Annual Fire Safety Statement issued• Current insured replacement value of building• Reported balance of Capital Works Fund	<p>This information can be sourced from the most recent AGM and the supporting financial statements.</p>
<ul style="list-style-type: none">• Date interim or final occupation certificate issued (if available)	<p>This is information from owners corporation records.</p>

From a legislative viewpoint

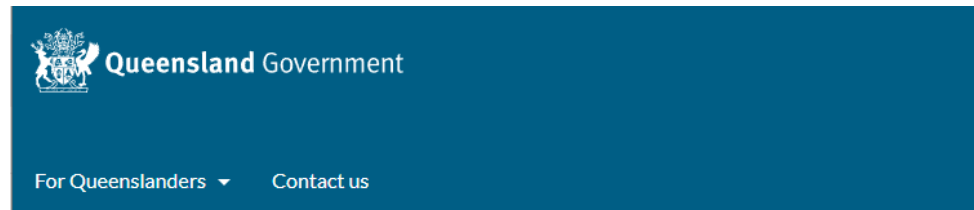


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Buying a unit in a body corporate

If you buy a flat, unit or apartment that has a body corporate, you automatically corporate.

This means you have bought the title to your flat or unit, as well as a share in the surroundings, for example the garden and car park.



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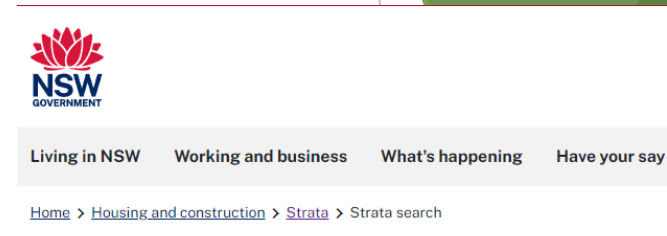
Body corporate legislation and services we offer

Services of the BCCM office

Buying a body corporate property

This information is relevant to bodies corporate that are in the [Corporate and Community Management Act 1997](#) (BCCM Act).

If you are thinking about buying into a community titles scheme...

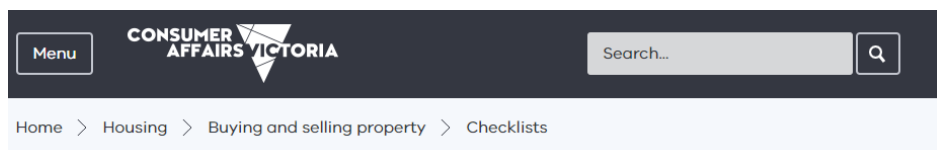


Strata search

To access public information on any NSW strata scheme, visit the [strata search tool](#) site address to find out the number of lots and date the scheme was created.

What information can I find?

Once the new strata scheme reporting rules begin from 30 June this year more public information about the state's 83,000 schemes will be available on the strata search tool.



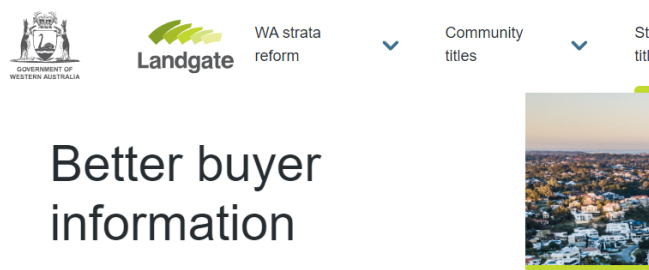
Buying an apartment or unit - checklist

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[Owners corporation](#)



Better buyer information

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Buyers now receive more complete information about the strata property they are looking to buy.

- The changes make it easier for buyers to identify the potential 'health' of a strata property that's for sale - as sellers will be required to provide certain information



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Strata titles

Certificates of title

Managing certificates of title

Company titles and moiety titles

A strata title is usually associated with townhouses or warehouses. A strata plan divides the land into lots, which are jointly shared and owned by all titleholders in reference to parts of the building and not by reference to the land.

Strata corporations

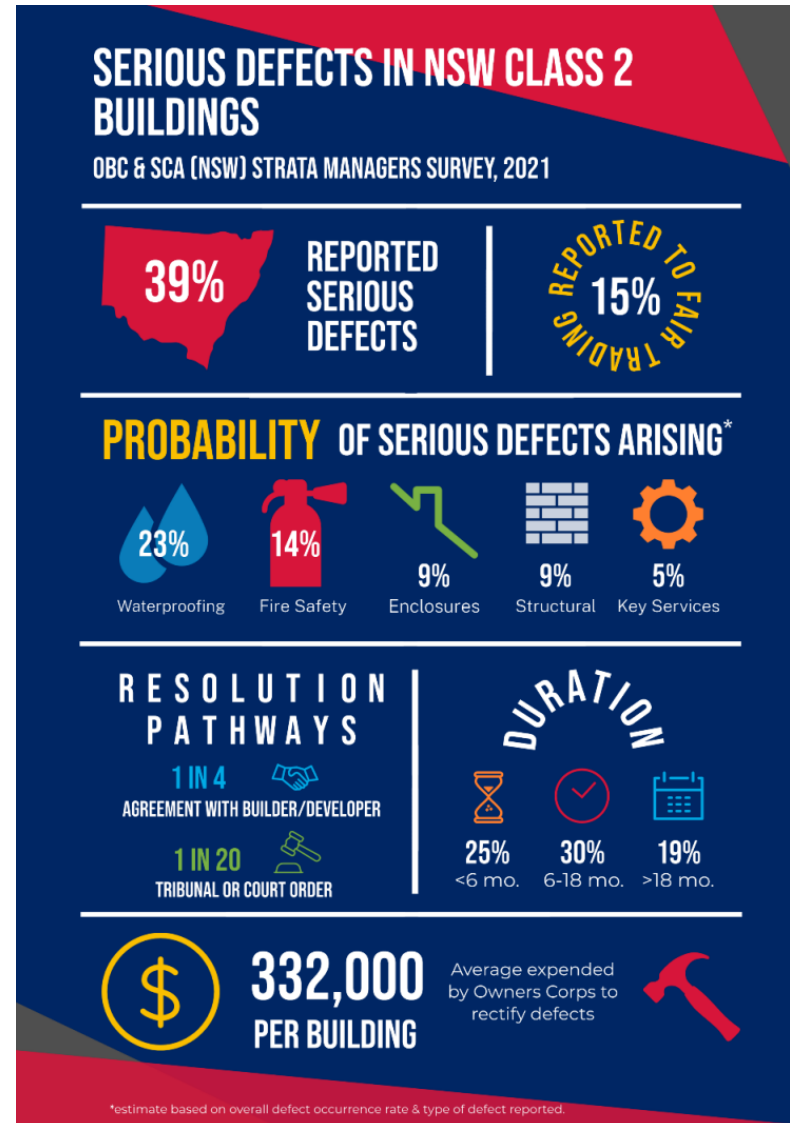


From a legislative viewpoint

Serious Defects Research Report released in September 2021 by OBC and SCA (NSW)

Big shift in focus by the Office of the Building Commissioner (NSW) from new to existing building maintenance over the next few years.

NSW's new 'Strata Hub' proposing to potentially report sinking fund balances publicly for the benefit of prospective purchasers.



From a legislative viewpoint

REINSW requested legislative clarity about the information to be included in the 10-year capital works fund, that it include “annual savings requirements”, that a template form be produced and for a guidance note to be included as to who is qualified to prepare such a plan. (Q121, p47-48). The Report noted this feedback and suggested that more details should be included to make sure owners corporations are “adequately planning and saving for future works”. It recommended “greater detail on minimum requirements” for capital works fund plans, to “consider mandating an approved form of plan” and that future phases of the Strata Hub reporting “to consider inclusion of further detail on owners corporation’s capital works fund plans and progress with their implementation”. (Rec 111, 112, p84)

[REINSW Lobbying Paper Jan 2022](#)

- ▶ How long before mandated plans are required?
- ▶ Should mandated measures be set by turnover and not lot numbers?
- ▶ How far behind Japan is Australian Strata mandating contributions?

Your Strata Health Check:

- ▶ Balance of your fund - \$100k / \$500k / \$1m may be a lot or not enough!
 - ▶ Try to pay down loans ASAP / Cannot pay out your share early
- ▶ Maintenance Plans are a crucial component of success
 - ▶ Sinking Fund Forecasts / Capital Works Fund Plan / 10 / 15 year Maintenance Plans
 - ▶ Focus area: Painting your building
 - ▶ Focus area: Elevators/lifts? Generally, can be under-provisioned
- ▶ 'Living Budget' - constant reviews of projected budget against actual spending
 - ▶ Money not getting spent can indicate work not getting done
 - ▶ Keeping an eye on cashflow vs budgeting
- ▶ Review of the strata committee meeting minutes
 - ▶ Often a place where 'discontent will rear its head'

Coming up for Strata Guardian



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Strata Guardian Maintenance Plan and Levy Estimator

Recommended for use on desktop computers. Fill in the details below, and in the following reports click on the green PDF buttons in the top right of your screen to generate a saveable PDF report for your scheme/plan.

[CLICK HERE TO GO TO CALCULATOR](#)

Enter Details

Name *

First Name Last Name

Email *

By using this calculator, you agree to occasional email updates from Strata Guardian about their services only.

Building Name

To display on reports.

Address

Address Line 1

Suburb

State

Post Code

Current Year End Date *

Current Strata Fund Balance *



Coming up for Strata Guardian



- Come and say hello at the SCA National Conference at the end of the month!

Thank you!

- ▶ *Amanda Farmer - YourStrataProperty*
- ▶ *Gregor Evans – The Knight*
- ▶ *Chris Duggan - Bright and Duggan*
- ▶ *David Bugden – Bugden Allen Graham Lawyers*
- ▶ *Dee Pannell - Body Corporate Matters*
- ▶ *Craig Welsh - QIA Group*
- ▶ *Chris Irons - Strata Solve*
- ▶ *Catherine Cashmore – Cashmore & Co Real Estate Advocates*
- ▶ *John Hutchison – Strata Answers*
- ▶ *Ian Taylor - Sentinel Strata Services*
- ▶ *Nikki Jovicic - LookUpStrata*



Questions...

Richard

Should the Sinking/Reserve fund be quarantined for necessary maintenance only (that is expenditure to maintain the building at a quality as it was at build time)?

I'm interested in advice on whether non-critical but desired improvements are something that should be included within a sinking fund or it is more advisable to identify such improvements as a separate fund.

There is no implication that improvements aren't a good idea, but would like to understand if it is better practice to keep 'improvement fund management' separate from 'sinking/reserve'.

The Sinking Fund should of course include repair and replacement of elements of the property such that the building is able to be maintained as a minimum to the specification as-built.

However, from time to time, Owners will have a desire or need to improve, enhance or upgrade the property. The inclusion of these items in the Sinking Fund, and the visibility of the raising of capital towards these future expenditures, provide Owners with clarity around the future presentation of the building and provides forecasts for the property as a whole that can be duly scrutinised, reviewed, and voted upon.

Live Questions...



Thanks for your attendance!