

Sky's the limit

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So you thought your strata levies were high enough already?

Many residents of Sydney's strata-titled buildings are in for big levy increases under the impact of new legislation, industry experts say.

As of February 2005 the Strata Schemes Management Act 1996 requires all owners' corporations of new buildings to have a 10-year maintenance plan to accompany their sinking fund, with those of older apartment blocks to be phased in over the next three years.

Bruce Wheeler, the general manager of the Institute of Strata Title Management in NSW, says the 10-year sinking fund plan is to cover major works. It means money will be available when an item needs to be replaced.

"The concept is that all owners, irrespective of their term of ownership, will pay their share of the use of the essential components of the building, not just those unfortunate to be owners when the building needs major work," Wheeler says. "Levies are decided at their AGM and the budget is decided by majority vote of the owners."

However, many of Sydney's ageing apartment blocks are facing multimillion-dollar infrastructure costs.

Industry experts such as Peter Coyle, of Century 21 Coyle and Everett Bondi Beach, say unit owners are in for a wake-up call. He manages about 220 strata-titled buildings and the family business has been operating in the eastern suburbs for 40 years. He chairs about three annual or special meetings a week.

"It's going to mean a big increase in levies," Coyle says. "Levies have been miserly, [owners] pay only what they have to pay. It's going to mean a big slug."

Coyle says many people move to units thinking it's a cheaper lifestyle, but the days of \$250 to \$300 a quarter strata levy are over and levies in many cases will more than double. "They are in for a big shock. People will be made to realise they have to put more money away to maintain their units."

Wally Patterson, who established Dynamic Property Services 25 years ago and administers 300 strata-titled buildings and 50 community-title schemes, says there has been a habit of not putting enough money aside and this has led to the new 10-year plan legislation.

"But certainly for the past 15 years we have been strongly advising clients and most of the larger [blocks] have agreed [to bigger sinking funds]."

THE RANELAGH EXPERIENCE

In the absence of enough money in the sinking fund, the owners' corporations of many Sydney buildings are resorting to special levies to pay for major repairs.

One of Sydney's iconic high-rise towers, Ranelagh at 3 Darling Point Road, is overdue for infrastructure works, so owners face special levies totalling several million dollars.

The building is 38 years old and has 120-odd units over 30 floors that capture stunning Sydney views from its position at the geographical top of Darling Point. David Karet has lived at Ranelagh for eight years and is chairman of the owners' corporation. He says on the immediate agenda is an upgrade to the lifts (about \$800,000), replacing the balcony balustrades (about \$700,000) and building code fire compliance (\$700,000 to \$1 million). On the longer-term agenda is an upgrade of all windows to safety glass, which is likely to run into several million dollars, as is recladding the building.

"There are 128 units - some are joined - and everything sounds like a lot of money, but when you divide it by 128 units it's not as bad as it first seems."

For example, \$2.5 million divided by 128 units is about \$20,000 each on average, though top floors pay more and lower levels less. The news came as a shock to some of the original residents, some of whom paid only \$30,000 for their units in 1968. Karet says he doesn't expect any Ranelagh residents to have to sell. Any owners who might be asset rich but cash poor on fixed incomes will be helped to find a solution.

It's not all cash out of pocket - the upgrade will provide increased parking space and subsequent revenue from sales and leasing.

Karet says Ranelagh is no different to many Sydney high-rises approaching their 40th birthdays and the good news is that he expects the value of the apartments to rise "20 to 40 per cent" once completed.

HORIZON

The chairman of the owners' corporation for Darlinghurst's Horizon, Richard Gratton, says the developers set the strata levies too low when the Harry Seidler-designed building, which has 260 units over 43 floors, was completed in 1998.

"The developer had control of the committee for the first two years but the residents ousted that influence." After that, levies were raised 10 to 15 per cent to reflect fair wear and tear, he says.

Gration, a lawyer, says the changes came in 2001 after the owners' corporation contracted Multiplex to manage its sinking fund. A 20-year maintenance plan was implemented.

For example, Horizon's air-conditioning chiller unit is halfway through its life expectancy of about 15 years and it costs "\$3 million to \$4 million" to replace.

Horizon has also recently contracted a firm to clean and repaint the complex over the next 10 years at a cost of about \$1 million.

The sinking fund has about \$1 million in it and in Horizon's 2006 budget, \$563,000 was allocated to boost the sinking fund out of total levy revenue of more than \$2.5 million. "The secret is you have to be treating these things as a small business," Gration says.

HOW TO AVOID PROBLEMS

Too many developers strike minimal strata levies in order to attract buyers.

Strata management companies say it's important that developers of new buildings do an accurate assessment and set the levies correctly from the start.

"It's a lot less painful than double or treble the levies 10 years down the track," says Dynamic Property Services' Wally Patterson.

Quantity surveyors, such as Queensland's Leary and Partners, are the experts the owners turn to. Principal David Leary says prospective owners need to be diligent. "[They] will quickly learn to ask whether a unit block has had a sinking fund forecast prepared before they buy in, and will want to negotiate for a discount on units where there are clearly inadequate funds to meet future maintenance costs.

"Our company was the first to provide a professional sinking fund forecasting service to strata managers and owners. This happened back in 1990.

"To date we have prepared more than 1100 sinking fund forecasts throughout NSW and many thousands more in Queensland, Victoria and South Australia."

Leary says it's not all doom and gloom for unit owners.

"Generally, fees can be expected to rise in older blocks. However, this will depend on the condition of the buildings at the time a sinking fund forecast is prepared."

Yet he says that many older buildings - particularly smaller blocks without lifts and other mechanical equipment - are quite efficient from the point of view of maintenance.

WHAT CAN BUYERS DO?

Wheeler says buyers must do their homework. They need to search a block's records to determine the condition of the building and any imminent capital works.

Coyle recommends professional help. "Buying close to the beach, there are hidden problems and some not so hidden. Has the owners' corporation got enough money? They have got to put a fair bit aside for the future."

A strata inspector or professional assessor can see what capital works a building might be facing. For example, a simple lift upgrade would be \$150,000 "minimum". Coyle recently oversaw a lift upgrade in Point Piper that cost its residents \$20,000 each in a special levy.

"People thought it was cheaper owning units. But they are going to have to realistic with budgeting."

Patterson says a 1920s apartment block on Macquarie Street had been neglected for three decades before he took it over about 13 years ago.

"They had to raise a couple of million dollars to bring it up to where they wanted it," he says, and some owners could not afford the special levy. They got around the problem by borrowing the money, some of which was repaid only after owners sold.

THE LAW

- From February last year, under the Strata Schemes Management Act 1996 all owners' corporations in new buildings had to begin their 10-year maintenance plans to accompany a fully costed sinking fund .
- All owners' corporations will have to fall into line by July 2009 as the law is phased in, depending on the age of the block.
- 75 per cent of owners must agree on the funding and plan at the owners' corporation AGM.

WHO WILL POLICE THE LAW?

- The NSW Office of Fair Trading via the Consumer, Trader and Tenancy Tribunal, which can order owners' corporations to meet their obligations.

WHO WILL BE LIABLE?

- The members of the owners' corporations will be liable for their committee's decisions.
- Indemnity insurance is recommended when engaging professionals; directors' and officers' insurance is recommended for committee members.