

# Strata faces \$10b black hole

September 27, 2006

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## The Australian

STRATA-title apartment buildings around Australia have an estimated \$10 billion worth of maintenance work outstanding, according to a new study.

Many body corporates had not budgeted for problems and sinking funds were often insufficient, said Bill Debney, managing director of Sydney-based lender Strata Finance.

Australia has 1 million strata scheme units - home to some 2 million people, according to Strata Finance.

In a survey of 700 strata plans and 23,000 units, Strata Finance found that up to 65 per cent of all sinking funds - capital repair funds set aside by owners - would require "significant additional contributions" in the next five years. "In addition, 85 per cent of sinking funds are underfinanced to meet future capital works," Mr Debney said.

He estimates that \$3 billion worth of work is required in NSW, based on an estimated 400,000 lots or units requiring an average \$7500 to be spent on major fault rectification or refurbishment.

Industry players agree the problems were worst in smaller body corporate schemes, which make up most of the sector.

Robert Anderson, a director of Body Corporate Services, said it had been compulsory in Queensland since 1999 for body corporates to prepare a sinking fund analysis document, and the same became law in NSW in 2004.

"That's been reasonably successful in getting schemes to put money away," he said. But there was no legal requirement for them to do so. Nor did they have to hire experts or even outside consultants to prepare reports.

Big residential towers had more owners to levy, but large bills to prepare for - commonly \$1 million or more to replace lifts or repaint exteriors.

Mr Anderson said many body corporate schemes covered just two, three or four lots and these owners found it particularly difficult to fund large works.

"Despite all the big buildings you see around the Gold Coast, Brisbane and Sydney, the average (body corporate) size in Queensland is 10, and the average in NSW is 10 lots," he said.

Of 60,000 body corporate schemes in NSW, half had fewer than 15 lots.

Body Corporate Services manages about 4000 properties along the east coast, covering 100,000 "doors". It is among the world's 10 largest body corporate managers.

The president of the National Community Titles Institute, Rob Pitcher, said legislation was due to be introduced in Victoria soon to address body corporate maintenance issues. He said "any middle-class suburban street" had a range of houses that were well-maintained and others less so, and body corporate-run properties were the same.

Strata Finance, which has sealed an affiliation deal with MFS, specialises in non-secured lending to body corporates.

Mr Debney said such loans were a fairer way of funding maintenance than one-off levies that severely disadvantaged owners who happened to buy or sell into a body corporate scheme at the wrong time - and sometimes forced people to sell substandard properties.