



*CITYFUTUREs

Managing Major Repairs in Residential Strata Developments in New South Wales

SUMMARY REPORT

Dr Hazel Easthope
Prof Bill Randolph
Ms Sarah Judd

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ENVIRONMENT

City Futures Research Centre

City Futures is a University Research Centre dedicated to developing a better understanding of our cities, their people, the policies that manage their growth, the issues they face, and the impacts they make on our environment and economy.

Based in the Faculty of the Built Environment, City Futures is interdisciplinary in outlook and activity. It draws on the skills and knowledge of those within the Faculty whose knowledge encompasses the physical and spatial aspects of urban living, as well as those in other Faculties in the University whose interests coincide with our focus on the city.

The core activity for City Futures is research. It offers a place where scholars can pursue research on aspects of urban development and change. But it also focuses outwards, engaging with the wider audience beyond the University. Wherever possible, City Futures works in partnership with the community, government and business to contribute to growing the evidence base on the issues that impact urban regions and how we can better manage their dynamic progress.

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Together with colleagues in other institutions who share our focus and passion, City Futures is committed to research and training that will contribute to better urban outcomes for Australia and beyond.



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Cover montage: [Managing Strata Repairs] June 2008, Dr John Barton

This is a summary report. The full report is available at:

<http://www.fbe.unsw.edu.au/cf/research/cityfuturesprojects/managingmajorrepairs/>

INTRODUCTION

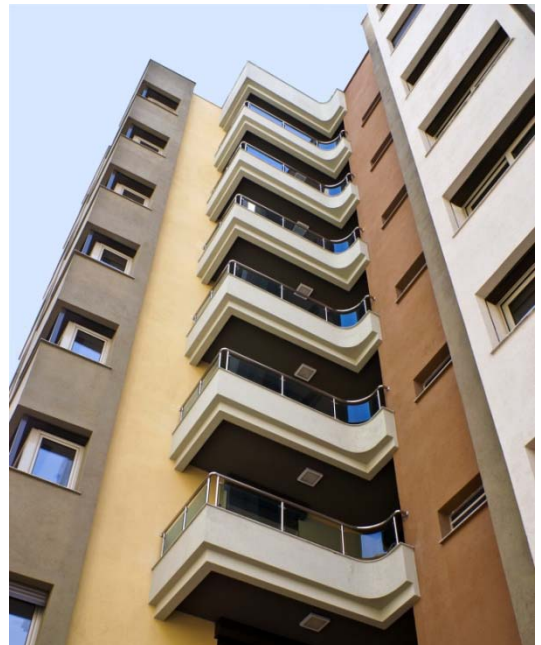
This document provides a summary of the findings of research carried out by the City Futures Research Centre at the University of NSW into the management of major repairs and maintenance of common property in residential strata properties (containing three or more lots¹) in New South Wales. This is the first report to outline the attitudes and experiences of strata owners towards planning for major repairs and maintenance in NSW.

The project had three major aims:

1. To establish current practices in respect to funding major repairs and maintenance in residential strata titled developments through a desk-based literature and policy review.
2. To explore the attitudes and knowledge of planning for major repairs and maintenance funding among consumers of residential strata, including resident- and investor-owners and executive committee members through a survey of strata owners.
3. To undertake a benchmarking exercise based on data collected by strata property managers in order to estimate the types of information available on maintenance and major repairs at the block level, to identify the form in which this information is recorded and to assess how easily the data can be accessed electronically and analysed for trends. Based on these findings, to make recommendations on improving management data collection to enable future policy development in this area.

By 'major repairs and maintenance' we refer to four main areas:

1. Routine maintenance (e.g. clearing gutters, gardening).
2. Major capital works (e.g. replacing carpets in common areas, up-grading lifts).
3. Emergency major repairs (e.g. repairing damage caused by a storm or burst pipes).
4. Building defects (e.g. defects in the original construction of the building).



¹ Some components of the NSW strata title legislation differ for 2 lot schemes.

RESEARCH CONTEXT

Repairs and maintenance are arguably the most important aspects of strata scheme management to get right. From a consumer perspective, these activities affect the lives of the thousands of people living, and investing, in strata titled properties. These properties are people's homes, and in many cases their principal financial investments. However, little systematic information is available on the practices and outcomes of these activities.

Due to its influence in Australia and overseas, the NSW strata title system is a nationally and internationally important case.

It is also important from a political perspective. The realisation of urban consolidation policies in Australia's five largest cities will rely heavily on the provision of strata titled properties and hence the success of these policies is directly linked to the successful management of strata properties.

Owners corporations are making vital decisions regarding the management and maintenance of tens of thousands of residential properties, amounting to billions of dollars in assets around Australia. There is thus a need to understand what is actually going on in the day to day management of schemes, understanding what is working well and what is not, especially in regard to repairs and maintenance of common areas, so that governments and other stakeholders can consider how to improve the situation for all those involved.

Due to the historical influence of the NSW strata title legislation on other state and territory governments in Australia as well as other countries, the NSW strata title system is a nationally and internationally important case study from which to address issues regarding major repairs and maintenance in multi-unit developments.

RESEARCH METHODS

The research was carried out in three stages corresponding to the main aims:

1. Stage 1 of the research established current practices regarding major repairs funding both in Australia and overseas through a desk-based literature and policy review.
2. Stage 2 sought to establish the attitudes and knowledge of repairs liabilities and funding methods by strata owners in NSW through an on-line survey of strata owners. We received 244 valid responses to this survey, which was conducted between August 2008 and April 2009. The survey comprised respondents from a variety of demographic backgrounds who owned a range of strata properties. Though consisting of only a small sample of the total population of strata lot owners in NSW, the findings covered in this report can be seen as indicative of the range of opinions and experiences of these strata owners regarding the management of major repairs and maintenance in strata properties. Discussion of these survey findings are supplemented with references to relevant state legislation as well as expert advice from Sydney-based engineers and architects.

The survey of strata owners comprised respondents from a variety of demographic backgrounds who owned a range of strata properties.
3. Stage 3 undertook a benchmarking exercise on current management practices with regards to funding major repairs based on discussions with strata management agents about the types of information available on maintenance and major repairs at the block level and the form in which this data is recorded.

REPAIRS, RESPONSIBILITY, MANAGEMENT & PRACTICE

In this section, we outline common defects and commonly required repairs, as well as current practices of major repairs funding in NSW. We link these to the attitudes and knowledge of strata owners who responded to the survey.

COMMON REPAIRS & MAINTENANCE PROBLEMS

Almost two-thirds of survey respondents considered the overall condition of their building to be either good or excellent, while just over one in ten respondents considered it to be poor. The most common problems with building condition identified in the survey were non-rectified defects, and structural problems.

Most survey respondents considered the condition of their building to be either good or excellent.

Routine maintenance and major capital works

Common problems due to age or lack of maintenance in residential strata schemes in NSW include: water ingress; water leaks in internal wet areas; failure of services; outdated balcony balustrades; blocked guttering; electrical faults; and concrete cancer.

Emergency major repairs

The emergency major repairs most commonly identified by survey respondents also related to water ingress, as well as plumbing problems.

Building defects

Common building defects in residential strata schemes in NSW include: water ingress; water leaks in internal areas; defective services (e.g. broken lifts or air-conditioning units); defective or inappropriate design of balconies or balustrades; guttering faults; electrical faults; building movement; cracking to internal and external structures; tiling problems; various defects caused by the use of inappropriate building materials; and poor fire and safety compliance.

Most survey respondents who owned a property built since 1997 had ongoing defects in their building.

Of the respondents who owned a property that was built since 1997, almost two-thirds owned a lot in a scheme with ongoing defects in the building. The defects most commonly identified by survey respondents related to water ingress.



RESPONSIBILITY

There was confusion on the part of many survey respondents about who was responsible for the management of major repairs and maintenance in their strata schemes.

Many survey respondents were confused about who was responsible for the management of major repairs and maintenance.

The owners corporation is ultimately both legally and financially responsible for the management of major repairs and maintenance in their strata scheme. Should the reserves and insurances of the owners corporation not cover the full costs or any compensation awarded against them as a result of poor management of major repairs and maintenance, each owner is financially responsible for the remaining costs (proportional to their unit entitlements).

Where a strata managing agent has been employed and delegated duties by the owners corporation, that managing agent has a legal duty of care to ensure that the actions, omissions and statements they make in the course of their duties do not injure or cause harm or loss to another. Should they be negligent in their duties, they may be liable for damages.

It is the responsibility of the owners corporation to ensure appropriate people are hired to carry out the major repairs and maintenance on their property. The owners corporation should be aware that when hiring uninsured tradesmen, they may be financially liable for any injury experienced by that tradesman.

PLANNING FOR MAJOR REPAIRS & MAINTENANCE AND MANAGEMENT OF FUNDS

- There are six **main sources of funds** that can be used for major repairs and maintenance in residential strata. These are: the administrative fund; the sinking fund; special levies; loans taken out by the owners corporation; insurances; and moneys (or other rectification) received as a result of legal action.
- **Estimates of future spending** required in a strata scheme can be made by specialist consultants, strata managing agents, building managers and the owners corporations themselves. There were examples of all of these amongst the survey respondents. However, some survey respondents said that no estimates had been made.
- **Levels of dissatisfaction** with the way in which funds were collected in their strata schemes were high amongst survey respondents. The most common concern related to owners' unwillingness to pay higher levies, resulting in insufficient funds in the budget and the consequent collection of special levies. Indeed, almost a third of survey respondents indicated that major repairs and maintenance was funded by special levies in their scheme. The second most common concern related to a lack of, or poor, planning regarding major repairs and maintenance funding and a lack of information provided to owners about these issues by the executive committee and/or managing agent.
Levels of dissatisfaction with the way funds were collected were high.
- The majority of the survey respondents had **participated in management decisions** regarding major repairs and maintenance in their strata schemes. The most common difficulty noted by survey respondents in making such decisions was agreement from owners over major repairs and maintenance expenditure. The next most common difficulty noted was in accurately estimating costs of future works.

- Just over half of survey respondents considered that their owners corporation or managing agent had **budgeted adequately for routine maintenance**. A quarter did not think that budgeting for routine maintenance had been adequate in their scheme. The most common reason given for being dissatisfied with the budgeting undertaken for routine maintenance was that there was little pro-active planning undertaken and that their schemes operated on a 'crisis management' model.



- One third of survey respondents considered their owners corporation or managing agent had not **budgeted adequately for major capital works**. The major concern was the striking of special levies to cover the costs of major capital works. Indeed, a third of all respondents noted that major capital works were often funded by special levies.

- Approximately one third of the 80 respondents who answered the question regarding the **adequacy of their sinking funds** responded positively. The most common reason given for considering their sinking fund adequate was that a good sinking fund plan was in place. There was,

however, also a common concern over the inadequacy of some sinking funds, particularly when they did not fully cover major capital works costs.

- There are a number of channels through which the **rectification of defects** in a strata scheme can be funded. These include: the owners corporation covering the costs out of the administrative or sinking funds or through a special levy (or loan); the builder or developer covering the costs (or the costs being covered under home warranty insurance); taking one of a number of parties (most commonly the builder or developer) to court and suing for breach of contract or negligence; and insurances held by the owners corporation. There were examples of all these methods currently being used by survey respondents. A further five respondents said that the defects would not be fixed.

PUTTING THE PLANNING INTO PRACTICE

Routine maintenance

- Approximately half the survey respondents had some concerns regarding the way in which routine maintenance was managed in their schemes. Common concerns included a lack of planning and of proactive leaders; the visibly poor standard of the common property, in some cases leading to safety concerns; and a poor standard of work and lack of quality control in regard to completed works.
- Those survey respondents who were satisfied with the way in which routine maintenance was managed in their schemes pointed to active executive committees, contactable and responsive strata managers and/or building managers, the existence of a regular maintenance schedule, good financial planning and the availability of funds; and good reporting practices and the availability of information regarding routine maintenance.

Half of the survey respondents had concerns about how routine maintenance was managed in their scheme.

Major capital works

- Approximately half of the survey respondents had some concerns about the way in which major capital works were managed in their schemes. Common concerns included inadequate assessments of the nature and costs of required works, insufficient funds available to cover these costs and a poor standard of work where it was undertaken.
Half of the survey respondents had concerns about how major capital works were managed in their scheme.
- Those survey respondents who were satisfied with the way in which major capital works were managed in their schemes pointed to effective budget planning resulting in sufficient funds available to cover major capital works; an active executive committee, including a good relationship with an active strata managing agent and/or building manager; and the fact that expert advice had been sought and acted upon.

Emergency major repairs

- Just over a third of respondents were dissatisfied with the way in which emergency major repairs had been dealt with in their scheme. Common concerns included the length of time it took to undertake repairs, a lack of information provided to owners, a lack of consultation with owners; the effectiveness of both the strata manager and the executive committee; and the poor standard of repairs.

Stakeholders

- There are a number of stakeholders involved in the management of major repairs and maintenance in residential strata schemes in NSW. These include (but are not limited to): builders, developers, real estate agents, (resident and investor) owners, the owners corporation and its executive committee, tenants, strata managing agents, (resident and non-resident) building managers and caretakers, contractors, and professional consultants (such as quantity surveyors, engineers, lawyers).
- A number of survey respondents noted their concern with the continued involvement of the original owner (builder or developer) in their strata scheme. In particular, concern was raised that the original owner was maintaining control of the executive committee and influencing the actions of various stakeholders, including strata managers. It is possible that changes under the Strata Scheme Legislation Amendment Act 2008 (NSW) will lead to a reduction in such concerns in the future.
Some respondents were concerned with the continued involvement of the original owner.
- Almost half of the survey respondents who owned a lot in a scheme with a strata manager said that they were dissatisfied with their strata manager's treatment of major repairs and maintenance issues. The most common complaint was that the strata manager did not provide the executive committee and/or the owners with sufficient information and that the agent did not respond to requests from owners and/or the executive committee for that information.
- The most common concern amongst those survey respondents who were dissatisfied with their owners corporation's treatment of major repairs and maintenance issues was the amount of time taken to reach an agreement. Other concerns included harassment and inappropriate and non-essential spending.
The most common reason for dissatisfaction with the owners corporation was the amount of time taken to reach an agreement.

- Almost half of the survey respondents said that they were aware of disputes between individual owners and the owners corporation related to the management of major repairs and maintenance. Some disputes resulted from the failure of the executive committee to meet its obligations with regard to documentation, communication, obtaining quotes for needed works and the overseeing of repair works. Other disputes were of a more personal nature, including accusations of harassment.
- Problems in the conduct of particular owners were also identified. These included owners interfering with hired contractors and attempting to claim moneys to improve their individual lots. Some respondents noted that some owners had taken (or threatened to take) legal action against each other and/or against the executive committee regarding this issue. On the other hand, concern was also raised about the lack of action on the part of owners.
- A number of survey respondents noted disagreements in their schemes about whether certain repair or maintenance projects were necessary. In some cases, delays due to such disagreements (or general inaction) led to further damage to property. Disagreements often occurred when different types of owners within a scheme (such as occupiers and investors; newer and older owners; shorter-term and longer-term owners) had conflicting attitudes regarding costs and standards.

AVAILABILITY & COMPARABILITY OF REPAIRS & MAINTENANCE DATA

Executive committees in NSW keep a number of records relating to repairs and maintenance, including details of cash flow, levies and expenditures. The lack of a universal database and standardised formats for this information precluded the possibility of obtaining a representative sample of relevant financial data.

There is no universal database or standardised format for executive committee records relating to repairs and maintenance.

One potential source of information on, at the very least, 'typical' repairs and maintenance costs and issues at block level are strata management firms. The researchers received detailed data on major repairs and maintenance funding in confidence from three strata management companies of different sizes in NSW. While producing only a small data set, they clearly demonstrated the divergent collection and reporting practices across strata schemes managed by different agents. The researchers found that availability of data on maintenance and major repairs at block level – while often recorded in detail – is difficult to access due to issues of confidentiality and consent from individual owners corporations; a lack of standardisation in accounting codes; and the range of software packages used by different firms to record the data. This means that automated comparisons between the data held by different strata managing agents is impracticable, at least without extensive retrospective re-coding of accounting codes. Three possible approaches for the collation of major repairs and maintenance data are outlined in Section 5 of the main report.

DISCUSSION

This section discusses some concerns which are beyond the scope of this research but which will require further consideration in any coordinated approach aimed at improving the condition of the strata stock in the longer-term. While the need for major repairs is strongly related to the level of maintenance that a building has received throughout its life, it is also related to the design and construction process



of a building. This issue was made apparent by the comments of survey respondents regarding defects in their buildings that had existed since the time of construction.

The need for repairs is related to the original design and construction of the building.

There are a number of factors that can contribute to defects in a building. These include certification of component parts, training and management of contractors and subcontractors and the potential knock-on effects of cost-cutting imperatives during development.

CONCLUSIONS

The standard of the management of major repairs and maintenance in residential strata in NSW influences tens of thousands of people living and investing in strata and underpins the success of the NSW Government's urban consolidation strategy. It is therefore important to understand what is actually going on in terms of the interpersonal and organisational relationships that influence current practices, attitudes and knowledge regarding planning for major repairs and maintenance. It is also important to know what the condition of the strata stock is across the state and to get an idea of the typical costs associated with maintaining and repairing particular types of strata properties.

The survey responses indicate that common causes of concern regarding the management of major repairs and maintenance in residential strata in NSW are:

1. Ongoing building defects since construction.
2. Lack of planning and of pro-active leaders.
3. Inadequate assessments of required works and associated costs leading to budget shortfalls.
4. A poor standard of work and of quality control where works are undertaken.

The survey responses indicate that the following conditions were important for satisfaction amongst owners regarding the management of major repairs and maintenance in their schemes:

1. An acknowledgement by all owners of their responsibilities as members of an owners corporation, and as joint owners of common property.
2. An active and responsive executive committee and (where applicable) strata managing agent.

3. A good relationship (and flow of information) between the executive committee, managing agent (where applicable), building manager (where applicable), owners and tenants regarding plans for major repairs and maintenance.
4. A regular maintenance schedule and a plan for major capital works, based on expert advice.
5. Effective budget planning resulting in sufficient funds to fund required works.
6. Repairs and maintenance works that are undertaken are properly funded and multiple quotes are received for works before a contractor is chosen.

The report also concludes that the effective management of a strata scheme is strongly influenced by the relationships between owners, between owners and the executive committee, the original owner (the builder or developer), strata managers and building managers. However, the roles of the multiple other stakeholder groups involved in the management of strata properties (e.g. lawyers, engineers, the NSW Office of Fair Trading and the Consumer, Trader and Tenancy Tribunal) will also need to be taken into account when considering ways in which to improve the quality of residential strata stock in NSW.

The effective management of a scheme is influenced by the relationships between multiple stakeholders.

While the legislation covering the sector is incredibly important in governing the actions of all those involved in the management of major repairs and maintenance in residential strata buildings, our findings suggest that in practice, there are gaps in owners understanding of the implications of the existing legislation. There are also large discrepancies between owners in terms of their knowledge regarding best practice in the sector (such as the importance of receiving professional advice, hiring licensed contractors and drawing up regular maintenance schedules), as well as their willingness to act in response to this advice. Part of the solution will be to improve the information available to strata owners. Much information is already available on best practice in this area. NSW Office of Fair Trading, the Owners Corporation Network and the Institute of Strata Title Managers are some of the agencies that provide such information. However, more detailed information, such as a dataset of typical costs for different property types, would be beneficial in helping owners to make informed decisions about budgeting for major repairs and maintenance. Three possible avenues for further consideration for the collection of such information are suggested in the report.



The other part of the solution will be to provide information to those owners who are not actively seeking it, so that owners have this information *before* a problem occurs. For example, consideration could be given to the development of a toolkit compulsorily distributed to every strata owner at the time of purchase which clearly outlines their rights and responsibilities regarding the upkeep of the common property in their scheme. Deliberation on how best to inform owners of their rights and responsibilities regarding the management of

The other part of the solution will be to provide information to those owners who are not actively seeking it.

major repairs and maintenance will need to be ongoing and will of course be dependent on the resources available to those agencies who will provide such services. However, it is essential that this issue remain at the forefront of government consideration as poor management of major repairs and maintenance in strata properties has implications for the quality of life of tens of thousands of people in NSW and billions of dollars worth of assets.