

STRATA INSIGHTS REPORT

COST OF LIVING IMPACTS ON STRATA COMMUNITIES

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| Prepared By | Coastal Strata coastalstrata.com.au |
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1. INTRODUCTION

There are now more than one million strata and community-titled lots (units, townhouses etc) in NSW. This report provides insights into what the rising cost of living is having on strata communities based on our interaction with strata schemes in the capacity of providing strata reports.

Our insights and information can assist strata owners, strata managers and property industry professionals as we dive deep into these questions and more:

1. What impact is the cost of living crisis having on strata levies?
2. How much are levies increasing?
3. What are the indicators of strata financial distress?

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2. COST OF LIVING IMPACTS

In an era of rising cost of living strata properties are also encountering cost pressures adding further impact to property owners.

Strata levies are fees paid by owners to cover shared expenses and to maintain common areas. Levies will almost always include a contribution to the Administrative fund and the Capital Works fund.

The **Administrative Fund** manages the day-to-day costs of the strata scheme including building insurance, repairs, maintenance, cleaning, utilities, and management fees.

The **Capital Works Fund** (previously called a 'sinking fund') is like a 'savings account' for the property, putting money aside for major repairs, painting, plumbing, landscaping, energy efficiency upgrades, fire safety improvements and common area renovations.

“Administrative Fund budgets are typically run at cost + margin or contingency. With costs increasing from strata service providers and suppliers we’re seeing increases in strata levies occurring across the board.” Craig Baylis - Coastal Strata

So, what impact is this having?

Generally it is the strata manager who prepares a budget for approval by the owners at an AGM. With owners facing their individual pressures the question is how receptive are owners to recommendations to increase strata levies?

Anecdotal evidence is showing us that levies are increasing **with 30% + increases** being quite common. However, we are seeing some 'creative' attempts to minimise the increases or keep levies the same.

Some strata schemes are increasing the Administrative Fund budget however **reducing the Capital Works Fund budget** at the same time.

This means a smaller increase in levies than is suggested and in most cases necessary. A consequence of this short term solution is exactly that, it's short term.

If you consistently raise less into the Capital Works Fund than is suggested by a Capital Works Fund plan it can increase the possibility that special levies may be needed later.

2. COST OF LIVING IMPACTS

Below is an extract from an AGM notice we saw where the agenda proposed three budgets for the owners to consider.

Budget 1 was based on the Capital Works Fund plan. Budgets 2 & 3 seem to be amounts purely to reduce levies to a 'manageable level'. The owners decided on option 2. Thankfully it wasn't 3.

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| Budget "1" | \$7,894.00 |
| Budget "2" | \$4,894.00 |
| Budget "3" | \$100.00 |

Explanatory Note: Both the budgets have increased this year and in order to try and keep the levies at a manageable level I have provided you with three options for the Capital Works budget. I have provided them with the agenda so you can consider the information before the meeting but a full discussion will be had in respect to the new budgets at the AGM.

Another trend we are seeing is strata schemes **reducing the frequency or cancelling altogether** service providers such as common area cleaners and lawns and gardening services.

A 2 Storey block of 8 units in Wollongong decided at a meeting in May 2023 to;

*"Keep the levy contribution the same as the previous year due to cleaning and lawns and gardens being **removed from the budget**. The owners acknowledged the deficit in the Administrative Fund but would like to see how the expenditure changes throughout this new financial year and agreed to review the repayment on the deficit at the next AGM .*

The owners also acknowledged that an Extra Ordinary General Meeting might need to be held in case of a shortfall to raise a special levy."

Low levies are not necessarily a good thing

Ideally a strata scheme should be raising sufficient funds into the Administrative fund to cover the recurring expenses each year plus keeping the Capital Works Fund balance in line with the recommendations in their Capital Works Fund plan." Craig Baylis - Coastal Strata

3. INDICATORS OF STRATA FINANCIAL DISTRESS

As financial pressure builds on strata schemes here are some of the leading indicators we see to forecast the financial health of a property.

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| <p>Administrative Fund deficit</p> | <p>A deficit in the Administrative Fund refers to when expenses are greater than levies received in a certain period.</p> <p>This can happen from expenses being greater than budgeted, unexpected expenses occurring, or levy arrears meaning less money was collected than expected.</p> |
| <p>Insurance premiums</p> | <p>In almost all cases strata insurance is paid annually. So, when a property changes to monthly or 6 monthly instalments there's bound to be a reason behind it.</p> <p>A simple reason could be that the Administrative Fund balance was insufficient to pay the annual premium when it was due. Sure it may smooth the cash flow paying by the month, but you'll be paying more for the convenience.</p> |
| <p>Levy Arrears</p> | <p>One owner in arrears can impact on the strata schemes cash flow. Consider a property with 4 units and 1 owner is not paying their levies. Assuming equal entitlements that could mean 25% less income is being received.</p> <p>In addition the strata scheme would need to pay debt collection costs in the interim from an already reduced account balance.</p> |
| <p>Reduction in services</p> | <p>Cutting back on non-essential but regular expenses like gardening, common area cleaning frequency.</p> <p>In smaller schemes some owners may volunteer to mow the lawns or do the common area cleaning themselves rather than pay a service provider.</p> |
| <p>Special levies</p> | <p>Are special levies being proposed or raised for relatively minor amounts?</p> <p>Are special levies needed to repay a deficit in the Administrative Fund?</p> |

There's two main levers strata properties can pull to bring in income - Levies & special levies

ABOUT COASTAL STRATA

Founded by Craig Baylis in 2011, Coastal Strata is a property research company based in Wollongong that provides Strata Inspection reports on strata schemes throughout New South Wales.

Coastal Strata's clients are considering purchasing a strata unit and come to us to provide them with valuable knowledge, reassurance and insights into the property.

In 2015 Craig also established My Bylaw, to assist strata owners in gaining approval from strata to renovate their unit.

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