

R *THE REAL ESTATE* ROUNDABOUT

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INSPECTING THE STRATA BOOKS



If you are purchasing a strata title property it's crucial that you buy into a good apartment and a well managed building.

As more apartments are constructed, many people will be moving into strata living arrangements for the first time.

If you are purchasing a strata title property it's crucial that you buy into a good apartment and a well managed building. Many people who buy into a building mistakenly make their purchasing decision exclusively on the merits of the apartment.

Buying into a harmoniously run, financially sound development is one of the most under-rated aspects of apartment living.

Many baby boomers are selling their spacious family homes to move into strata living for the first time.

Adjusting to apartment living can be difficult enough without the added worry of a strata in crisis.

If the word crisis seems dramatic to describe what can go wrong in strata living, rest assured it is not. Regardless of whether you are a first home buyer, investor or a down sizing baby boomer, inspecting the strata books is more important than the oven in the apartment.

Given you are buying into a building where you will share amenities and expenses it is worth knowing of any issues that have arisen in the past.

Common issues to be aware of in strata usually consist of:

- Noisy neighbours/ conflict between residents
- Unpaid levies/insufficient money in the sinking fund
- Concrete cancer (particularly in older buildings)
- Defects in many of the newly built apartments.
- Special levies to fund capital expenditure

Noisy neighbours/conflict between residents

Neighbours are an underestimated aspect of buying a property be it a house or apartment. Before buying, knock on a few doors and meet the neighbours. They will soon tell you things the agent hasn't.

Unpaid levies/insufficient money in the sinking fund

A few non-payers in a building can quickly cause financial stress in a strata title situation, particularly in a smaller block. In a block of 4 units, if two owners are behind on their strata rates, 50% of the income is missing. The pressure quickly mounts.

If you stumble on a circumstance where the owner you are buying from is the person that is behind in paying the rates, rest assured you don't inherit that debt.

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VPA ON THE RISE

Sellers asked to foot the bill, again



Sellers need to establish the true cost of advertising their home and avoid inadvertently paying to promote the agent.

The cost of advertising a home is rising and beginning to resemble the newspaper era. Owners are being offered or sold advertising campaigns up to and above \$10,000. The cost of the campaign is paid up-front by the seller regardless of the success of the campaign.

VPA stands for Vendor Paid Advertising. Agents will also charge a commission in addition to the VPA. As one observer noted, VPA is for profit, the commission is for profit.

Sellers need to establish the true cost of advertising their home and avoid inadvertently paying to promote the agent.

Before the internet changed the world, newspaper classifieds were known as the Rivers of Gold. Cars, employment and real estate advertising created an absolute bonanza for the publishers.

As consumers migrated from print to digital, previously non-existent companies/websites such as carsales.com.au, seek.com.au and realestate.com.au stole the classified market from their print rivals.

The move into digital classifieds was a win for everyone that moved into that space. Consumers enjoyed a better experience with search functions and more photographs being available. Those placing the ads such as agents, direct vendors and third party operators were exposed to a larger market on the internet. At a lower cost too. And the owners of the websites enjoyed a healthy profit margin in comparison to print rivals.

Suddenly the cost of advertising a property has done a full circle. The costs are similar to what home sellers previously paid in expensive print campaigns. Maybe the agents know where the home sellers, pain threshold for VPA is from back in the glory days of print!?!?

A real estate trainer recently cautioned his clientele that 'Australia was now the world's most expensive market to run an internet campaign'. Essentially, agents are so busy trying to out-promote each other with vendors' money that they are driving the cost of advertising up.

As the ads become more expensive, the agents aim to convince the next vendor to spend more.

The good news for home sellers is that buyers are interested in buying your house not the size of the advertisement. Just because an agent asks you to spend \$10,000 on a VPA campaign, it does not mean you have to agree.

One home seller recently challenged an agent that asked for an excessive sum for advertising. The agent very quickly slashed the advertising in the hope of being granted the listing.

The agent's lack of belief in the proposed campaign was apparent very rapidly. Understandably the owner wanted to know why the agent asked for \$10,000 in VPA if \$3000 was sufficient, after a few tough questions.

Some agents have adjusted positively to the benefits of the internet and slashed operating and marketing costs in the process. Others are aiming to replicate the print and vendor pays model from a bygone era.

Buyers are interested in buying your house not the size of the advertisement.

When employing an agent, negotiate a package that involves them selling your house rather than you buying advertising. Bundle the advertising and commission into one fee, only payable on settlement of the sale. You will find the agent is suddenly economical and thrifty with the amount of advertising required to sell a property. The savings is yours to keep.

No Lies, No Deceit, Just Honesty, Integrity and Results

Inspecting the strata books

Those funds will be reconciled at settlement of the sale. While these are all common go wrongs, you don't want to jump at shadows either.

Most agents now disclose the strata/ building levies in their marketing. When you find a property that has abnormally low strata rates, keep in mind that if they are collecting insufficient funds to run the building, ultimately the owners will need to pay a special levy of some kind.

As a potential buyer inspecting the strata's books, you are entitled to see the financials to gain a full and proper perspective of how it is being managed. If you don't understand financial reporting, employ someone who does to give you the vital information you need to know.

Concrete cancer

Many units built between the 1960s and 1980s experience concrete cancer. It is common for people to disregard a building inspection and/ or engineers report on a strata title property. The theory being the strata committee has to deal with such issues. If you are buying into a building that is a high risk of concrete cancer, it's preferable to know this prior to purchasing. Conversely, if a building has had concrete cancer and dealt with it comprehensively, that augers well for the future of that property.

Defects in newly built apartments

The flip side to the construction boom in apartments is we will see a 'defect boom'. Defects are a reality of new constructions. You won't read about it in the brochure at the time of buying off the plan though. Know your rights prior to signing a contract.

Depending on how the contract is written, the developer may have more freedom

than you imagined.

In extreme cases, the developers have changed the floor plan and/or the standard of fittings on unsuspecting buyers. It is a case-by-case basis, but have a good real estate lawyer independent of the developer read the terms of the contract to you.

If buying off the plan, be sure to find out whether the developer will have an influence on the strata committee. In the past, some developers have controlled the strata committee until the builder's warranty insurance expires. If any defects are brought to the strata committee's attention, they waive the concern away until the developer is in the clear from the warranty.

Once the insurance expires, the cost and risk of the respective issue reverts to the owners of the strata.

Millions and millions of dollars have been spent on court cases between developers and strata complexes in recent years. During the court case, it is common for the market to heavily discount the value of properties within the development that are put up for sale.

Special levies to fund capital expenditure

Special levies arise when there are necessary works required and insufficient funds in the accounts. Special levies are not a reason to avoid buying a property in itself.

A special levy or intention to strike one is definitely a reason to investigate matters further. Depending on the scope of works being proposed the special levy could be paid in one amount or over several quarterly payments.

The works that the special levy intends on funding fall into two categories – remedial works or capital improvements.

In regards to capital works, a \$10,000 or \$20,000 special levy can add substantially more to each property. Many of the apartment blocks built between the 1950s and 1980s are rendering and modernising their façade.

The Waterpoint development in Drummoyne was a dated, somewhat unsightly apartment block when compared with its contemporary peers.

The owners agreed to a modernisation of the building's façade and common areas. The works were funded through a series of special levies.

The result was a stunning transformation that added a financial windfall on the investment of the special levy to each of the owners.

The above points don't serve as a complete safeguard against strata title issues. Nor are they designed to frighten anyone from buying into strata. Similar issues can arise with houses also. Given so many Australian's will live in apartments for the first time in the decade to come, being aware of the potential issues is paramount.

Many units built between the 1960s and 1980s experience concrete cancer.

Hopefully you agree it is a mistake to simply outsource the strata report to your lawyer or conveyancer when buying a unit.



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of the ground breaking new book
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within a hundred metres of a real estate agency.**

HOW'S THE MARKET?

The 2016 property market enters the final quarter in good shape. If the market finishes up for the year come December 31, it will be the 5th calendar year in a row the market has finished higher. That's an extraordinary streak.

Given the market gyrated up and down between 2003 and 2012, five years of straight growth is unprecedented.

Apartments

A subtle sign that the profile of the boom is changing is emerging in the performance of houses and apartments. Between 2012 and mid 2015, the growth in Sydney apartments and houses was essentially equivalent. Compare this with Melbourne and Brisbane where apartment growth lags house price growth by a long way.

In the past 12 months, as analyst after analyst issues dire warnings about an impending oversupply in Sydney, sentiment towards apartments is cooling. Whether this is a fundamental shift in the market or a case of battered confidence remains to be seen.

Many large scale apartment projects are due for completion in the next two years. The resale prices in these developments will be an interesting insight into how the apartment market is faring. Reports are emerging of developers who are holding off on new projects to see how the apartment market holds up in the next few years.

This is a welcome sign for the integrity of the market going forward. When faced with the same signals in other cities, developers continued to build unabated.

Chinese buyers are reportedly rescinding a lot of contracts across town. According to Meriton boss Harry Triguboff, they are forfeiting their 10% deposit and opting out of the contract. If this becomes widespread practice, it could shake the apartment market.



11 Onslow St Arana Hills SOLD For \$31,000 above asking price

While Chinese investors may be opting out, any softness in prices may open the door to first home buyers. A boom is bad news for those looking to enter the property market. A price correction usually represents opportunity.

For those looking to break into the market, your time may be soon. The fact that there is a generation of first home buyers ready to enter the market when it shows signs of value is comforting for those already invested.

Houses

All of the key indicators in the housing market suggest the market will charge into 2017 on the front foot. Enquiries per property, inspection numbers, time on market, bidders per property, prices selling above vendor expectations are key indicators that all tell the same story - the market is strong.

A cottage at 11 Onslow Street Arana Hills recently sold after 2 days on market with 93 buyers having enquired. Four buyers submitted offers to the owners during the campaign.

If prices continue to rise, it would not be a surprise to see APRA tighten lending into the residential sector again. The RBA must be bewildered at what they are seeing in the Sydney market. The RBA's commentary to the housing market is usually tempered and consistent. In recent times, the RBA's view towards property has been inconsistent and contradictory if anything. It all adds to the confusion.

Stock has been tight all year. Even though there has been an increase since the spring selling season began, listings are down on recent years. Given stock is so tight and prices are rising, it makes selling and then buying a home a nightmare scenario. Many people are faced with the reality of selling and watching prices jump as they sit on the sidelines. It really is important to establish a game plan prior to acting in the current market.

RECENT SALES

47 Joalah Crescent, Ferny Hills	\$465,000
23 Hutton Road, Ferny Hills	\$531,500
11 Onslow Street, Arana Hills	\$531,000
26 Lesina Street, Keperra	\$650,000
22 Yeerinbool Court, Arana Hills	\$461,000
22 Minto Crescent, Arana Hills	\$540,000