

ENHANCING  
YOUR  
COLLECTIVE  
ASSET  
IN  
2017

A SYDNEY UNIT OWNERS  
GUIDE  
TO  
CREATING, PROTECTING +  
MANAGING  
EQUITY  
IN  
YOUR UNIT BLOCK

# THE VALUE OF COLLECTIVE THINKING

As high-density developments continue to flourish in many Sydney suburbs to meet rising demand, what we have long regarded as the Australian norm for 'housing' has also been changing dramatically.

Anyone hankering after their own piece of the property market is awash with information when it comes to what we regard as the 'free standing', traditional view of the quarter acre block.

But, as first homebuyers continue to struggle to enter the market, even that quest – and the expectations that go with it – have been tipped on their head.

Not surprising then that many a first homebuyer, baby boomer downsizer and investor has turned their attention to strata schemes – unit blocks, neighbourhood and community title schemes.

The big question is: Have their basic expectations of ongoing capital gain and lifestyle factors changed as well?

We can call this the 'your-home-is-your-castle and should increase in value along the way' syndrome.

After 36 years experience in strata management, we believe it will take a particular brand of [collective owner thinking](#) to create similar expectations in these vertical villages.

The strata living rush is effectively changing the psyche of cities, but how much is still an evolving social science.

While we can't change the 'social engineering' and its potential outcomes, what we can address as individuals is [how we navigate this sector](#) of the real estate market and take the time to understand the factors at play.

No matter where and what you buy, the bottom line is that a lot of money will be parted with. This carries an expectation of return on investment.

But, what you buy today may not be what tomorrow's vertical villagers will be looking for when high density living and lifestyle becomes even more entrenched.



This is particularly evident in NSW, where Sydney is restricted in how much more 'urban sprawl' it can accommodate. The demand for dwellings that are close to transport hubs and within commutable distance of work locations - with shopping and leisure on the doorstep - keeps growing.

The statistics for NSW show that the bulk of this development is occurring in the inner and middle ring suburbs, while on the outer edges there is a shortage of strata scheme offerings.

The reasons for that are two-fold - governments and planners want to take full advantage of already available transport hubs, rather than outlay funds on expensive new infrastructure and; the demand for commutable ease coupled with sought after facilities keeps land values high to attract the development investment needed.

Within that framework, a drive around Sydney will reveal that this boom in unit living throws up many choices, not just in location, but in appearance, styles and amenities.

There are benchmark developments with architects vying for design prizes, along with a plethora of rapidly built one bedders for students and everything in between.

It isn't rocket science to figure out that any property with sparkling harbour views will always attract a premium at any time, or that you are unlikely to retire in splendour off the proceeds of a farflung, outer suburban, modest weatherboard.

## THE BRAVE NEW WORLD OF STRATA PARITY

Demographers predict Sydney strata dwellings may equal the number of freestanding homes sooner than the predicted 2030 date.

As we continue to feel our way in this

relatively new higher density market and see it evolve in myriad ways, it becomes obvious that [strata scheme living brings with it an entire new set of laws, rules, regulations, lifestyle considerations and levels of involvement in their management.](#)

It also brings a need for [collective thinking and decision making](#) if you are to achieve a dual goal of great lifestyle and enhancing your values.

If you are happy to traverse an unattractive building exterior to reach your individual unit and trade that off for convenience of location and affordability, then that is a personal choice.

But, when you are ready to resell and trade up, don't be surprised to find it languishing on the market and failing to realise much more than you paid for it.

A gaze into the crystal ball at the time of purchase would have suggested that thousands more units were likely to be built in the period of time you were occupying yours.

But, by [paying attention to the fundamentals and taking the time to understand the components](#) that will help ensure owners in this sector will see good future returns and get to love where they live, can make all the difference.

## LAND COMPONENT IS KEY

At the most basic starting point, real estate values in Australia's top performing markets have a large component of land value.

In the current Sydney climate, it is not uncommon to see a tumbledown property in a good location sell for a gobsmacking amount of money. The unloved dwelling isn't what most are paying for, but rather the land and its potential to be redeveloped and carry those values forward and upwards.

It's a fair bet that among the keen buyers

will be eager developers with an eye to how many units they could fit on the available space.

But, what if your asset is a larger unit in an older block, but is ticking the boxes in terms of available transport and shopping facilities? The whole thing has seen better days, the surrounding streetscapes aren't the prettiest and it is coming up for some major repair and upgrade works.

Don't be surprised to receive a developer's offer of a buy out to each unit owner and hey presto, a year or so later there's a shiny, higher new block in its place and not a communal outdoor area in sight.

## A UNIT BLOCK GOLD RUSH?

**A 2014 report by UNSW's Department of the Built Environment estimated that there were 8500 apartment blocks, predominantly in the eastern and beach-side suburbs where developers might take advantage of relaxed planning laws and modern building techniques to put more – and more expensive – units in the same space.**

**Under new NSW strata law, it only takes 75 per cent of owners to vote to end a strata scheme and sell the entire block. Developers are on the lookout for older, poorly maintained properties in areas of high demand and population growth. But, due to their condition, the 'market prices' offered to owners are likely to be lower than those for well maintained properties.**

**A notable exception to this was the outcome for a group of Cronulla apartment owners who recently sold their units for double their worth. Four blocks of eight beach-side apartments in Cronulla were sold together for \$54 million, doubling the estimated value of the units.**

**All 32 owners at the Gerrale Street complexes, opposite Cronulla Beach, were in favour of selling their ageing unit blocks after local planning legislation changes made the combined site a magnet for developers.**

**As planning laws in some precincts allow for nine storeys and commercial components to strata schemes, some commentators believe the Cronulla sale is the first of what may be 'a unit block gold rush'.**

## A TALE OF TWO BLOCKS

It's that land value and location combination again. The more units there are on the land 'footprint', the less any component of land value will apply to each individual unit.

What would the outcome have been if that older block had enjoyed years of great financial management, engaged owners, a collective view of what was important in regard to its appearance and maintenance and with a careful eye on future values?

Let's look at two examples:

### CASE STUDY 1:

**A 15 year old-block with 20 units sits in a sought after leafy suburb.**

**It is in keeping with the larger brick and weatherboard character homes in the area.**

**There is no shortage of unit blocks of varying sizes in the area given it has long enjoyed easily accessible public transport, highly regarded schools on offer, excellent shopping facilities and visual appeal.**

**The block also has an admirable communal garden area that has won prizes. This block and its residents are a very good neighbour.**

**Its entrances are attractive, the building is in tip top shape and without a paint peel or sagging gutter in sight.**

How often do we hear someone comment that a certain street shows owners who are 'house proud'? Welcome to the strata scheme version of that and the conscious management effort it takes to achieve it.

In this case, it's an owners' corporation with the **leadership and knowledge** that understands how much individual owner values can be bolstered by paying great attention to **the collective asset**.

**"In other locations we would call it a strong sense of community."**

There is also an agreement that at this point in time owners will not entertain offers from developers who see the potential to occupy the entire land footprint and reach for the sky with three times as many units.

In a sea of indistinguishable new blocks with no innate character, they are enjoying standing out from the crowd.

**"In other locations we would call it a strong sense of community"**

The owners' corporation chairman welcomes any new owners into the block with the words that this particular collective piece of real estate 'works hard to maintain its appeal in the environment and that it will always preserve and increase its value and that of the individual owners'.

There is a waiting list of potential buyers.

## CASE STUDY 2:

A year old block of 100 units in an inner-urban area that to date has been known for its multi-cultural makeup and high density living.

But, the glossy brochure and website for the unit for sale touts air conditioned comfort, places to get on your bike, public transport at the door, a great lifestyle and easy shopping since there's a 24/7 supermarket on the ground floor.

The building's façade is similar to new unit blocks in the area. There is no communal outdoor area.

But, it does have balconies, which are largely populated by stored bikes, washing out to dry and plastic tubs.

Inside, the entry corridors are also awash with extraneous items.

But, the unit interior is fresh and new, albeit small, so the buyer trades off for convenience.

Once ensconced though, it doesn't take long for the cracks to start showing up in walls, the balcony leaks every time it rains and the bills are coming in from the newly established owners' corporation to already cover repairs.



**The developer has acquitted their responsibilities and handed it over to the volunteer owners' corporation to manage and it is still feeling its way.**

**It also turns out that the majority of the residents are rental tenants, who largely view it as convenient accommodation rather than a longer-term home to be kept spick and span.**

**There is no conscious effort to create a community atmosphere and it will soon be overshadowed by several more high rises.**

In both cases, the process begins with trusting what we are all imbued with – our senses.

In free standing real estate land, snapping up the worst house in the best street might turn out to be the right move, but it doesn't apply in the same way to an entire block of very ordinary units.

What you see may well turn out to be what you get. If it looks like a rubbish tip, there is a constant clamour of urban noise, the odours emanating from nearby commercial enclaves are palpable, there isn't a parking spot in sight and the infrastructure is in need of major TLC, then the **chances of much improvement and consistent capital gain** are likely to be limited.

## **FUTURE-PROOFING COLLECTIVE ASSETS**

**A bit of forward thinking may also suggest that what we want today may seem obsolete tomorrow.**

Many Sydney agents report that new entrants to strata living are concerned about wastage of levies and the need to repurpose funds away from unused gyms, pools, outdated roof terraces and concierges of blocks built in the 80s and 90s.

Equally schemes that:

- have a policy around noise abatement measures
  - are prepared to incorporate alternative energy solutions
  - insist on a percentage of communal use outdoor space
  - work to include all owners in decision making and actively encourage good governance
- may just be the gold nuggets that the next wave of vertical villagers are looking for.



In the new, rapidly growing unit market, the best decisions and ‘community’ actions are taken when we can see past the ‘me’ and [recognise the power in ‘us.](#)

## AN AGENT’S VIEW OF THE VALUABLE COLLECTIVE ASSET

While beach or harbour views may help, good governance that allows sound collective decision making and focuses on the ongoing enhancement of units, whether they are slated for development or not, is proven to improve values.

Well-known Sydney agent, Peter O’Malley of Harris Partners Balmain, has consistently found greater individual property values rising inside well-governed unit blocks.

“Certainly there is a lack of vision across the board by some who prefer lower strata fees and only meet emergencies when they occur.

**“It is a huge lost opportunity,” he says. “Particularly now as strata and planning laws and demographics are changing. “**

“This couldn’t be a better time for proactive

Owners Corporations to collectively enhance their building and their individual units.”

But, he says, it takes good governance, proactive committees, an experienced and, again proactive strata manager which understands an “enhancement focus, not just protection or maintenance”.

Mr O’Malley cites an impressive 15 per cent jump in value of individual units for an inner west unit block – immediately after a major building wide enhancement was undertaken by the owners corporation.

Described as ‘prudent, energetic and interested’ the owners corporation sought advice, pooled 5 per cent of the value of their units to increase the collective value and help future-proof some of the ongoing external maintenance.

“The unit owners were delighted and bit shocked by how aggressively the positive revaluation was made,” he says. “This is a template for other owners and committees to follow suit.”

Part of the reincarnation of the 70s style-unit block on Drummoyne’s Wrightson Rd was removing the blockwork balustrades that hampered the Sydney Harbour views and replacing with glass and stainless steel.

Mr O’Malley says there are many unit blocks



beginning to tire in inner western suburbs like Birchgrove, Balmain East, Drummoyne, and eastern suburbs like Rose Bay.

“Right now is the best time for owners to get progressive.”

Understanding the collective mindset means you could seek out sustainability measures to reduce outgoings, take on mobile phone towers, install solar panels or wind towers to power the common areas, collect rent for signage or seek the best price for a sellout.

The message is clear: Sticking together with an eye to the future will make you a winner in the new Sydney strata landscape.

**There’s never been a better time to capitalise on great strata [governance and expert management](#).**

Well-managed properties which enjoy a;

- high degree of owner cooperation and participation
- collective view to consistently maintaining the whole building
- a good record of participation on the owners’ association
- transparent financial records
- a proactive, knowledgeable strata manager

...will always be attractive to future buyers.



How well managed is your unit's future value?

Is your Owners Corporation equipped to make the best decisions for your unit block - your collective property asset?

# FREE ASSESSMENT

Request your Free 30 min strata  
governance assessment

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With more than \$1 billion worth of property assets under expert guidance, our strata managers have the experience and independence to enhance every aspect of your strata scheme.

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## NOTE FROM LAURA OUR LAWYER

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