



Scaffolding goes up in preparation for facade overhaul

How to convince your strata committee to RENOVATE

Not every unit owner has up to \$40,000 cash available to join forces and massively renovate the block and gardens to improve values. That's why convincing them is all in the negotiation. **NICOLE NAVARRO**

Many investors and home hunters are turned off by old brick walk-up units because transforming the facade isn't a straightforward process. It involves the cooperation of several other unit owners and their willingness to part with tens of thousands of dollars in cash. It's not an easy challenge to undergo.

The task of transforming a detached house facade pales in comparison, even though the

dollars involved are often so much greater.

But it doesn't mean you should give up because there can be some big rewards at the end. Buyers agent and renovator Chris Gray of Empire says the task to persuade other unit owners to renovate the unit exterior isn't impossible, however it can be tough.

Gray says that for many homeowners and property investors loaded up with mortgage

debt, the chance to double their money with a complete render over the old brick, add new glass balconies and window fittings, followed by full landscaping and two new car spaces sounds ideal, but when it's time to hand over the initial lump sum, it can be incredibly daunting and for some, hard to afford.

Every unit owner has a unique situation; they don't all have excess money tucked away for an external renovation, but if they've been holding the unit for a 10 to 12-year period they would have seen their unit values double while the building condition declined, he notes.

It's important to stay focused on the goal at all times and remember that the renovation would actually be doing the other owners a big favour in preserving the value and quality of the building – their asset – and updating it to maximise future capital growth performance, he says.

DUE DILIGENCE ON THE UNIT OWNERS

So if that perfect unit has been spotted but the building needs repairs and updating – the salt from the nearby ocean has worn away the mortar, the brick has a dated look from the late '60s, the window fittings are drab and damp, tired and even cracking, the balcony railings are hideous and slipping, and the car spaces are just patches of grass in the shabby surrounding garden – don't despair, because there is hope.

To negotiate through such an endeavour, Gray says there are steps that need to be followed if the initial goal is to add enormous value with a reno inside and out. The first step is in understanding the flexibility of the unit owners before buying.

To do so it's important to obtain a copy of the block's strata committee report and look for signs of building upgrade activity; at least this is what Gray did when he found his ideal two-bedroom investment unit with ocean views at Maroubra beach, 12 kilometres southeast of the Sydney CBD.

Before Gray bought the two-bedroom unit in a nine-unit block in 2007, he paid

\$250 to a strata inspection company for a special strata report providing him with the minutes of annual general meetings, the sinking fund balance, any special levies drawn and any action taken to repair or upgrade the building.

He says the report can at first be overwhelming at 40 to 50 pages on average but once you get the hang of it you can quickly get to know the strata committee and which individuals might be more flexible to preserving and upgrading the building.

"You can see who's proposing what, who votes and who doesn't, and you can tell by the strata fees on how prepared the owners are to invest in the building. Just because the block has low or expensive fees you need to find out what they do with the fees to maintain the building," says Gray.

"Another idea is to get in touch with the actively voting owners and talk to them about your ideas. Ask them if they'd support the renovation and what the chances are of gaining support from others.

"It's very important to know if a special levy will be raised so you know what you might be up for and to read about other various issues in the building."

Gray always obtains a building inspection in addition to the strata report because the strata committee may choose to deliberately not record minutes of all maintenance or structural issues, particularly if a unit is up for sale and what's written in those minutes might impact that sale, he says.

The building inspection is another way to avoid any imminent and costly maintenance from falling through the cracks, however there's not much you can do if a special levy for a renovation hasn't been raised prior to the sale of a unit and is deliberately held off until a month or so after the unit sells, yet no intention to raise the levy is recorded in the minutes of any strata meeting, says Zac Marshall of Result Property Group.

"Unfortunately it's a risk you have to take when buying into a strata community," he says.

Of course it's a different story if the unit owner was aware of the intention to raise the special levy yet didn't inform the buyer; then there could be room for recourse, he says.

Gray remembers a case when his client bought a unit and a special levy was 'conveniently' raised one month after the unit sale for the purposes of upgrade work. "The buyer got a \$30,000 shock afterwards and another \$50,000 shock one year later."

Back to the Maroubra unit. With the strata report in hand Gray sifted through the pages and noticed the same three owners would turn up to meetings; they were also the only

Chris Gray's negotiation tips

- Take a long-term view – upgrading the exterior should be a bonus, not the main reason to invest into a block of units.
- Get involved in the strata committee as early as possible as the wheels of strata committees turn very slowly.
- Gain the trust of key and vocal members of the committee from the start as they influence the other owners. One-on-one meetings are often better.
- Educate, discuss and ask for opinions rather than dictate – no one wants to be lectured.
- Be determined – you've got to be strong and argue your case if you want to succeed. The easiest thing for most people to do is nothing.
- Be compassionate – even though it's essential work, not everyone has the same finances and timeframes.
- You can't win every time – there are still blocks I partly own that I would love to upgrade.

There are steps that need to be followed if the initial goal is to add enormous value with a reno inside and out.

ones who voted on minor issues while the other unit owners remained passive.

Gray knew if he could at least gain the support of all three committee members he'd have a good shot of meeting the 50 per cent minimum requirement of votes obtained from financial members (unit owners who are up-to-date with their strata levies) who chose to vote for or against the special levy at the extraordinary general meeting (a special meeting held outside of the annual general meeting).

Marshall explains that to vote on an issue you need to have a minimum of 25 per cent of all financial members meet in a quorum or submit their vote by proxy. Of that minimum 25 per cent, the majority needs to vote for the raising of a special levy to undertake works.

Once Gray read the strata report he then knocked on the door of one of the strata committee members and ran his block upgrade ideas past him. Content with the owner's response and confident in his own ability to persuade other unit owners, or even just one or two others, Gray bought the unit and volunteered to be on the strata committee immediately.

The three active owners voted him onto the committee at the next annual general meeting a few months later.

"At each annual general meeting the strata committee asks for volunteers to take the positions of chair secretary, treasurer or just a general position. Most of the time people don't want to be involved," says Gray.

SIGNING UP TO THE STRATA COMMITTEE

"When I entered the committee there were various issues with the building; the mortar was disintegrating – the salt from the surf eats into the mortar – they'd been talking about repointing the mortar back into the bricks so I then suggested if we're going to that expense we're better off rendering and actually improve the building value at the same time. This is where some of the owners opened their eyes up because it went from being treated as a repair to a cosmetic enhancement.

"Then I said if we're looking at that process and putting up scaffolding and obtaining council approvals we should also look at what else needs council approval and can easily be done at the same time – should we look at the glass balconies, extra car spaces and landscaping?"

The property already featured six garages and three car spaces so three more car spaces were proposed along with professional landscaping around this.

Three committee members, including Gray, were in support of the idea to take advantage of the opportunity to fully renovate. "Generally the people who turned up to meetings were reasonably proactive so we basically put the plan in the strata minutes that we would then need to raise a special levy of \$30,000 to \$40,000 per unit in two years' time.

"We then had another meeting about obtaining some quotes and to get some drawings together for council," explains Gray.



Scaffolding planks arrive



Ocean view balconies are about to be prettied up with glass frames



After the mortar repairs, render and new balconies, car spaces will be next

They were given a quote of \$10,000 to draw the designs and obtain the development permits from council; the building works would cost more than \$300,000. Gray's renovation company provided initial quotes for the building work.

The overall renovation cost could then be reduced by creating an extra three car spaces with separate titles to auction off to the unit owners for a minimum of \$15,000 each, he says.

The funds raised from the auction would then return to the strata sinking fund, Gray says.

"The unit owners already have one car space each so having two car spaces would further boost the value of that unit, particularly in an area where car spaces are crucial," Gray notes.

The council told the strata committee it would only allow two extra car spaces, not three, however there were no problems with providing an approval for the glass balconies, rendering and landscaping proposal.

The strata committee paid an architect to "put it all through council" so it didn't mean one of the unit owners was burdened with the workload.

CRUNCH TIME TO RAISE THE SPECIAL LEVY

When council approvals arrived the special levy of \$30,000 to \$40,000 per unit payable in a few months' time was proposed. This was when the unit owners suddenly became interested, says Gray.

"The project was then surrounded by sudden theatrical display as many unit owners who hadn't attended previous strata meetings didn't believe we needed to do this amount of work so quickly.

"We said 'we gave everyone plenty of notice two years ago and we can't give you another two years because the mortar will get worse and the building will fall down'. Brick fragments are falling onto the footpath causing a danger and the cars were scraping the concrete as they drove in – we had to become firm and serious," Gray says.

The unit owners wanted to see an

independent inspection of the building to determine if indeed it was in as serious a condition as Gray and the other committee members were claiming. So they agreed to hire an independent roof and building inspection at the cost of \$3000 and the deterioration was confirmed. Unfortunately the sinking fund was dried up so Gray even volunteered to pay his strata fees in advance just to get the report done.

Then another delay arose – Christmas, when whatever you're trying to do takes twice as long, until around February.

Overall the process took two years; it took up to six months to get new quotes because some of the other unit owners initially felt it was a conflict of interest if Gray's company managed the entire renovation. However he said he'd match the cheapest quote, guarantee the price wouldn't rise, guarantee the finish date, put penalties on the builder for non-performance and throw in his services as qualified project manager for no extra cost (a saving of up to \$40,000 if they hired someone) just so the project would finally be finished.

The process was run through an independent strata manager so unit owners could see everything was above board, says Gray.

However the unit owners reached a point in discussion together where they faced a junction – did they want to stop that special levy from being set in stone or go ahead and make it slightly slower with a special levy of

\$30,000 for the essential building work in one go and the remaining \$10,000 for the not-so-essential driveway and landscaping to be paid nine months later?

"Even though we had the voting power to push it all through immediately, you still need to do the right thing morally and not put anyone in any undue financial stress, but this does need to be balanced with the financial responsibility of all owners to preserve and improve the building and ultimately the property values," says Gray.

"It is a grey area so you do need to be careful at how pushy you become."

A compromise was reached.

"All the owners agreed it would be raised in two parts – at this stage of the process one of the owners decided to sell and cash in their profit. Two months later another sold and then a few months after that a third decided to sell."

Gray quickly acted on the opportunity to buy their units on behalf of his clients.

To "keep the sale at arm's length" he paid for bank valuations of the units and met those prices at up to \$650,000.

One unit owner even sold after they'd paid their \$30,000 special levy, even before realising the benefit.

"It also meant for the vendors a big saving in the agent's commission and auction fees as well as not having the stress and uncertainty," he says.

The building work will be finished next month. Based on the \$650,000 purchase price Gray expects the ocean view units will be revalued at up to \$700,000 each if already renovated internally. Once the landscaping and car spaces are done in the following year values will shift even further, possibly even up to \$725,000, depending on the market.

"It's an emotional and tiring political exercise; it takes a long time but even in a flat market like now it demonstrates you can still create equity or profit. But it's all about being active and educating others around you of the benefits, particularly in a situation like this one," says Gray. **api**

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