



Risk Assessment Report

for

[name withheld]

of

[address withheld]

on

27 February 2020

Pink Inspection Services

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Buyers requiring legal advice should speak to their lawyers.

Questions about this report

Should you have any questions concerning this report, please telephone the inspection manager, Michael Poynder, on 0401 371 077.

Risk assessment report

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Background

Our report

We have been instructed to provide a risk assessment report on the records of the strata scheme for this lot at this address.

Our report includes an assessment of issues of material significance we have identified during our inspection of the records. In determining materiality, we have taken into account those issues which are likely to be of concern generally to the majority of potential buyers. We have not undertaken a risk assessment of other issues relevant to a buyer personally, unless this report identifies such an assessment has been requested.

The executive summary in Section 1 contains our conclusions concerning the information described in Section 2.

Where appropriate, we include in Section 3 relevant articles of interest we have prepared relating to issues/features which arise in this complex which may affect a decision to buy. For instance, where the complex is a factory conversion, we include in Section 3 an article on the issues buyers need to understand when buying into factory converted strata complexes.

This report is prepared and submitted subject to the qualifications in Section 4.

Definitions and interpretation

Definitions

'Act' means the *Strata Schemes Management Act 2015*.

'aggregate unit entitlement' of lots the subject of the scheme, means the sum of the unit entitlements of those lots.

'AGM' means annual general meeting.

'building management committee' or 'BMC' (if one exists for the scheme) means the building management committee established under the strata management statement for the scheme.

'Contract for Sale' means, unless otherwise stated, the edition current as at the date of this report of the Law Society of NSW and Real Estate Institute of NSW standard form of contract for the sale of land in NSW.

'council' means the council of the area under the *Local Government Act 1993* in which the scheme is situated.

'ECM' means executive committee meeting.

'initial period' means the period commencing on the day on which the owners corporation is constituted and ending on the day on which there are owners of lots the subject of the scheme (other than the original owner) the sum of whose unit entitlements is at least one-third of the aggregate unit entitlement.

'Part' or 'part' as the case may be, means a part of this report bearing the number following the word.

'subject lot' means the lot or lots, the subject of this report.

'scheme' means the strata plan, the subject of this report.

'SCM' means strata committee meeting.

'Tribunal' or 'CTTT' or 'NCAT' means the NSW Civil and Administrative Tribunal or where appropriate, any of its predecessors.

Interpretation

In general terms, although this report may have been prepared for a lawyer or conveyancer, unless otherwise stated, the wording of the report assumes it has been prepared for the buyer alone.

In this report, unless otherwise stated:

- words in the report that appear in the singular, also apply to the plural
- a reference to a gender, applies to all genders
- words referring to a 'person' or 'persons', include references to legal persons, such as a company, unincorporated association, rather than just natural persons
- references to statutes and other laws are taken to refer to amendments of those statutes or laws from time to time
- headings are for ease of reference only and do not affect its interpretation
- where there is an inconsistency between information provided in this report and information in an attachment to the report, the information in the attachment will prevail, unless otherwise stated.

Changes to terminology effective 30 November 2016

References in this report to '*capital works fund*' or '*capital works fund report*' is the new description used to replace '*sinking fund*'. It came into operation as a result of the introduction of the new Act on 30 November 2016. Another change is the change of name of an '*executive committee*' to now be called a '*strata committee*.'

Report

Our inspection of the records of this strata plan reveals the complex consists of 40 lots. The strata plan was registered in 1975.

The percentage of unit entitlements attributed to this lot when compared with all unit entitlements in the complex is 3.6%. This should be kept in mind, particularly in relation to voting rights and should a special levy be struck.

Current quarterly levies to 30 April 2020 for the subject lot are:

- (a) Administrative fund: \$1,584.11
- (b) Capital works fund: \$1,395.89

1. Executive summary

1.1 Report conclusions

Based on the records inspected by us, we make the following conclusions:

Major concerns*

We have 2 major concerns which we identify in this report as follows:

Age-related water penetration issues and a high number of proposed and planned major expenditure items are likely to impose financial pressures on the owners corporation – We deal with this concern under the following headings:

Water penetration issues – In part 2.11 we refer to significant annual expenses over a period of 5 years relating to water penetration issues. There is also a current proposal referred to in part 1.3 to repair 3 balconies at a cost of around \$150,000.

This indicates the complex is aging and not aging well. You can expect levies to remain high to pay for such work with the occasional special levy or loan to fund the work. Attached in Part 3 is an article on buying into a strata complex with age-related issues.

This factor alone means levies in this complex will be materially higher than in other comparable premises without these problems.

To provide you with perspective, based on your percentage of unit entitlements, your share of any special levy will be \$36 per \$1,000 of special levy struck.

High level of proposed major repair and maintenance expenses – In part 1.3 we refer to a high level of repair and maintenance works and state:

‘The large number of repair and maintenance items is indicative of an older complex not aging well. We refer to our comments in part 1.2 where we state that the capital works fund has very little in the way of available funds, once the cost of recommended works which have not been undertaken as yet is taken into account.

It seems likely that these works will require higher levies/special levies or loans to pay for them. It is also likely that costs relating to these types of works will be ongoing as the complex continues to age.’

Capital works fund recommends major expenditure which has not yet been undertaken – In part 1.2 we state:

‘Although the capital works fund appears to be well above the recommended level, it does not take into account the cost of external painting (\$175,855) which was recommended for 2017/18, and other structural work recommended for 2017. Together the cost of those works exceeds \$300,000. This means that even though the fund appears to be well above the recommended level, in fact it is likely to be only around that level.

Taking into account our comments concerning water penetration issues and the likely high cost of proposed major expenditure, it is difficult to see how the owners corporation can undertake all these works without striking special levies or taking out loans to fund them.’

Differential levies are not applied – In mixed use strata complexes as this one, where there is a combination of residential and commercial lots, it is common for differential levies to be applied to ensure a fair distribution of expenses. In this complex no such levies are applied.

It means because you will be occupying a ground floor commercial lot for your business, you will pay costs for lifts servicing the residential units which you are not likely to use. You will also be paying for other costs such as power, carpeting and painting in common residential areas, none of which you will use.

That means your levies are unfairly applied and that you will be paying more than you should. The lift expense to you is likely to be lower than usual because a major lift upgrade has recently been completed. However, you will still need to pay for the lift running costs and maintenance contracts which in our experience, are generally expensive.

Concerns*

We have two concerns which we identify in this report as follows:

Current shortfall in administrative fund could mean a special levy will be struck – In part 1.2 we state:

'The records show that the administrative fund is already in deficit and the next round of levies will not fall due until 1 May 2020. It means either a special levy will be needed to maintain funding until then, or the owners corporation will need to borrow further funds from the capital works fund.'

The Act allows the owners corporation to borrow from the capital works fund in these cases. But it should be kept in mind that if the loan is not repaid within 3 months, the Act also requires the owners corporation to strike a special levy to repay the loan.'

It is likely this fund will be in deficit for over 3 months. If a special levy of say, \$40,000 was struck, your share based on your percentage of unit entitlements would be \$1,440.

Repair, maintenance and replacement of the air conditioning unit in your lot

– The Contract for Sale states there is an air conditioning unit in your lot. By-law 18 in the consolidated by-laws with the Contract for Sale imposes repair, maintenance and replacement obligations on you as owner. Your lawyer can explain the terms of the by-law to you in greater detail.

We recommend that you arrange for an appropriate specialist to inspect the air conditioning unit to ascertain its current state of repair.

Assessment of financial circumstances

In Part 1.2 we comment that the administrative fund is in deficit and is facing a special levy. We also state that although the capital works fund appears to be well above recommended levels, it does not take into account the fact that major recommended works have not yet been undertaken.

Assessment of capacity to meet future materially significant* expenditure

In Part 1.3 we comment that given our comments in part 1.2 about funds available in the capital works fund, it is likely the owners corporation will need to fund at least some of these expenses by special levies/loans.

Assessment of risks arising from missing documents

In Part 1.4 we state we did not sight an asbestos report or a lift registration certificate. We comment on the significance of this in this part.

* For important comments on these terms see Part 4.5. [\[Materiality\]](#)

Assessment of issues relating to breaches of by-laws

In Part 1.5 we identify harmony related issues that may be relevant to life in the subject lot.

Building inspection recommended

In Part 1.6 we recommend a building inspection be conducted by a qualified inspector experienced with strata complexes for the reasons explained.

1.2 Assessment of financial circumstances

The records reveal that the administrative fund is in deficit of (-\$2,707.14) and the capital works fund holds \$404,831.62, both as at 26 February 2020.

Administrative Fund

The administrative fund is used to pay for the day to day expenses of the owner's corporation. Examples include common area lighting and cleaning costs, gardening costs, insurance premiums and the fees of the strata manager.

The records show that the administrative fund is already in deficit and the next round of levies will not fall due until 1 May 2020. It means either a special levy will be needed to maintain funding until then, or the owners corporation will need to borrow further funds from the capital works fund.

The Act allows the owners corporation to borrow funds from the capital works fund in these cases. But it should be kept in mind that if the loan is not repaid within 3 months, the Act also requires the owners corporation to strike a special levy to repay the loan.

Capital Works Fund

The attached capital works fund forecast recommends that as at 30 June 2020 there should be \$78,068 in the capital works fund account. There is in fact currently \$404,831.62 in the account.

A capital works fund report identifies items of programmed repair and maintenance work that must be conducted on buildings at the complex over the coming years. Examples of such work include re-painting interior and exterior surfaces and re-carpeting of common areas.

The report also includes a calculation of how much money should be paid progressively into the capital works fund and held each year. The aim is to enable the owner's corporation to build up a fund to pay for such works as and when they are needed, without the need to strike special levies or take out loans. The attached extracts from the report refer to past and upcoming recommended expenses.

Although the capital works fund appears to be well above the recommended level, it does not take into account the cost of external painting (\$175,855) which was recommended in 2017/18, and other structural work recommended in 2017. Together the cost of those works exceeds \$300,000. This means it is likely that even though the

fund appears to be well above the recommended level, in fact it is likely to be only around that level.

Taking into account our comments concerning water penetration issues and the likely high cost of proposed major expenditure, it is hard to see how the owners corporation can undertake all these works without requiring special levies or loans to fund them.

1.3 Assessment of capacity to meet future proposed/possible materially significant* expenditure

Consideration needs to be given as to whether there are sufficient funds held by the owners corporation to meet these expenses after capital works fund related expenses are taken into account. If there are insufficient funds, options open to the owner's corporation include one or a combination of the following:

- Some or all of the items of expense may be deferred or cancelled
- A special levy could be struck, administrative fund and capital works fund levies could be increased, or a loan taken out to pay/help pay for the expenditure
- The annual capital works fund levies could be increased.

Apart from cancellation, if any of these other events occur, the percentage of unit entitlements relating to the subject lot as referred to in Part 1.1 above should be considered.

In Part 2.12 below we disclose proposed and possible materially significant* expenditure sighted over the period of the minutes we inspected as:

'Budget items for current financial year – *The attached capital works fund budget includes balcony and balustrade upgrade (\$85,000), building works (\$28,300), roof works (\$25,000) and water penetration rectification (\$47,000,) as proposed items of expenditure.*

Engineering report on failed balcony waterproofing membranes Units 16, 29 and 30 – *At an SCM in October 2019 a further report was sought. At an SCM in August 2019 quotes ranging from \$35,498 to \$145,265 were tabled. Clarification was sought on the cheapest quote.*

[name withheld] v Owners Corporation – *At an SCM in August 2019 it was noted that an engineer had refused to quote on works for Unit 4 and alternative fee proposals were sought. It appears this complex has significant water penetration problems which the owner has sought to have repaired through orders in the Tribunal. We were unable to determine the current position in relation to the proceedings.*

Repair flashing between garbage room and southern side of Cowles Rd building – *At the above SCM, quotes were sought.*

* For important comment on the meaning of 'materially significant' see Part 4.5. [\[Materiality\]](#)

Painting of internal lobbies and replacement of carpets damaged by water leaks
– At an SCM in March 2019, this work was deferred.

Install CCTV system with hard disc drive – At the above SCM quotes were sought.

Upgrading light fittings – At an SCM in September 2018 it was resolved that due to the high cost of this work, it was deferred until 2019. We did not sight evidence that the work was undertaken.

Work and expense in attached extract from WH&S report dated 18 May 2018 – We sighted comment in the minutes of meetings that works were underway. It appears the balcony and balustrade upgrade is an item of expenditure for this year. We were unable to determine the likely cost of unfinished works.’

The large number of repair and maintenance items are indicative of an older complex not aging well. We refer to our comments in part 1.2 about the fact that the capital works fund has very little in the way of available funds, once the cost of recommended works which have not been undertaken as yet is taken into account.

It seems likely that these works will require higher levies/special levies or loans to pay for them. It is also likely that costs relating to these types of works will be ongoing as the complex continues to age.

1.4 Assessment of risks arising from missing documents

In Part 2.9 we state we did not sight the documents listed below. We assess the importance of this to a buyer as follows:

Asbestos report

Under WH&S legislation, where buildings in a complex were constructed prior to 31 December 2003, an asbestos inspection must be conducted to identify and place on an asbestos register all asbestos in buildings in the complex. This requirement is particularly designed to protect workers such as electricians who may be conducting work at the complex and are unaware of the presence of asbestos.

Under the legislation, strata complexes which are entirely residential are exempt from these requirements concerning asbestos. That exemption does not apply if a strata complex is mixed residential/commercial and/or the owners corporation employs workers.

Often this is difficult to determine. A good example is if an owner conducts a business by renting their apartment through Airbnb.

We were unable to determine if the exemption applies to this complex.

Because of the dangers inherent with exposure to asbestos, and because of the difficulty owners corporations have in making a correct determination of whether the exemption applies, most owners corporations take a conservative view and assume that an asbestos report must be obtained.

Under the legislation, if asbestos is identified;

- an asbestos management plan must be prepared, and
- if immediate removal is not recommended, a reinspection should be undertaken every 5 years to assess the state of the asbestos.

Because we did not sight this report, we were unable to determine if asbestos is present. This may have safety and operational consequences for residents, visitors and persons conducting repair and maintenance work at the complex. One of the consequences is that an insurer could reject liability if a claim is made relating to an asbestos problem that was not disclosed to an employee.

You should discuss these issues with your lawyer. If you become an owner, we recommend you or your lawyer write to the strata manager asking for this report to be obtained for the reasons described.

Lift registration certificate

These certificates are required to be issued by qualified certifiers under work health and safety legislation.

Because we did not sight a current certificate, we were unable to determine if the lifts in the building are compliant. This may have safety and operational consequences and orders could be made that lifts be shut down until a certificate is provided. In addition, an insurer could reject liability if an injury is suffered as result of a defect that was not repaired.

1.5 Assessment of issues relating to breaches of by-laws

In Part 2.16 we refer to the following harmony related issues:

'Party noise from Unit 11, residents parking in visitor spaces, washing on balconies.

We recommend you identify the location of unit 11 where problems have been identified to determine if there is likely to be any material impact on life in your lot if problems are ongoing.

The owners corporation can deal with the other breaches by enforcing its by-laws.

1.6 Building inspection recommended

Because of the age of the complex and our comment below, we recommend a building inspection be conducted.

The inspector should be licensed and have experience with strata complexes. A copy of this report and the attachments should be provided to the inspector as a guide.

Comment

Sometimes owners corporations do not disclose in the records made available for our inspection information of concern to buyers. They do this to prevent buyers from finding out issues that may mean they decide not to proceed with a purchase.

Although this practice is likely to be considered illegal and may leave owners corporations and their management open to proceedings including for misleading and deceptive conduct, the practice persists. This is particularly so with poorly advised owners corporations, including those which are self-managed.

A building inspection by a qualified inspector familiar with strata complexes may reveal hidden issues, particularly those relating to structural problems.

2. Particulars of the scheme

2.1 Address of the subject lot(s)

[address withheld]

2.2 Lot number(s) and strata plan number

[details withheld]

2.3 Date of inspection

27 April 2020

2.4 Date range of minutes inspected

7 October 2019 (Strata Committee Meeting) to 21 March 2017 (Extraordinary General Meeting)

2.5 Management

Managing agent:	<i>[name withheld]</i>
Address:	<i>[address withheld]</i>
Phone number:	<i>[phone number withheld]</i>
Date of appointment:	Unable to determine
Appointed by Tribunal:	No
Assigned manager:	<i>[name withheld]</i>
Caretaker/building manager:	None sighted
Strata committee:	See motion 11 in attached minutes of October 2019 AGM
Auditor:	Appointed

2.6 Strata roll

Owner *[name withheld]*
 Address *[address withheld]*

2.7 Levies

(a) Scheme

Annual administrative fund levy	\$ 160,000 plus GST
Annual capital works fund levy	\$ 141,000 plus GST
Payable quarterly from	1 November 2019
Total current levy arrears	\$ 30,394.67

(b) Lot 34

Administrative fund levy	\$ 1,584.11 per quarter
Capital works fund levy	\$ 1,395.89 per quarter
Special levy	\$ NA
Other	\$ Nil
Paid to	30 April 2020
Arrears	\$ Nil

(c) Details of special levies struck during the period we inspected records

None sighted

(d) Proposals for future special levels

None sighted

2.8 Bank account balances as at 26 February 2020 (brackets indicate deficit)

Administrative fund	\$ (-2,707.14)
Capital works fund	\$ 404,831.62

2.9 Important documents

Unless otherwise stated, only current documents will be regarded as sighted.

(a) Insurance

(i) Certificate of currency of insurance

A certificate of currency of insurance is attached. Headline insurance details are referred to in Part 2.18 below.

- (ii) Building valuation

Sighted, dated 17 September 2019 recommending a replacement value of \$23,190,000.

- (b) **Capital works fund report**

Sighted, extracts attached

- (c) **Annual fire safety statement**

Sighted, dated 26 May 2019.

- (d) **Work health and safety report/asbestos report**

WH&S report dated 18 May 2018 sighted and extract attached.

Asbestos report not sighted.

- (e) **Lift registration certificate**

Not sighted

2.10 Materially significant* notices, orders or proceedings

- (a) **In the Tribunal**

We refer to our comments concerning proceedings by the owner of Lot 4 in part 2.12 below

- (c) **In courts**

None sighted

- (d) **Local council**

None sighted

- (e) **Building defect claim**

None sighted

* For important comment on the meaning of 'materially significant' see Part 4.5. [\[Materiality\]](#)

2.11 Materially significant* expenditure

Repairs (building complex)

Year	Work	Cost
2019/20	Rectify failing garden bed waterproofing	\$26,892
2019/20	Plumbing and drainage expense	\$10,707
2018/19	Lift upgrade	\$92,903
2018/19	Fire equipment upgrade	\$31,506
2018/19	Water penetration expense	\$41,589
2019	Lift upgrade	\$236,999
2017/18	Carpets and flooring	\$11,136
2016/17	Consultants expense	\$28,554
2016/17	Roof related expense	\$14,047
2016/17	Water penetration expense	\$53,226
2016/17	Lift upgrade	\$123,755
2015/16	Water penetration expense	\$41,757
2015/16	Install new side path	\$14,444
2015/16	Consultant expenses	\$33,757

Repairs (subject lot)

Year	Work	Cost
	None sighted	

Recurring Repairs (building complex)

Year	Work	Cost
2015/20	Water penetration expense	Varies-see above

* For important comment on the meaning of 'materially significant' see Part 4.5. [\[Materiality\]](#)

2.12 Materially significant* information

(a) *Proposed/possible materially significant* expenditure*

Budget items for current financial year – The attached capital works fund budget includes balcony and balustrade upgrade (\$85,000), building works (\$28,300), roof works (\$25,000) and water penetration rectification (\$47,000), as proposed items of expenditure.

Engineering report on failed balcony waterproofing membranes Units 16, 29 and 30 – At an SCM in October 2019 a further report was sought. At an SCM in August 2019 quotes ranging from \$35,498 to \$145,265 were tabled. Clarification was sought on the cheapest quote.

[name withheld] v Owners Corporation – At an SCM in August 2019 it was noted that an engineer had refused to quote on works for Unit 4 and alternative fee proposals were sought. It appears this unit has significant water penetration problems which the owner has sought to have repaired through orders in the Tribunal. We were unable to determine the current position in relation to the proceedings.

Repair flashing between garbage room and southern side of Cowles Rd building – At the above SCM, quotes were sought.

Painting of internal lobbies and replacement of carpets damaged by water leaks – At an SCM in March 2019, this work was deferred.

Install CCTV system with hard disc drive – At the above SCM quotes were sought.

Upgrading light fittings – At an SCM in September 2018 it was resolved that due to the high cost of this work, it was deferred until 2019. We did not sight evidence that the work was undertaken.

Work and expense in attached extract from WH&S report dated 18 May 2018 – We sighted comment in the minutes of meetings that works were underway. It appears the balcony and balustrade upgrade is an item of expenditure for this year. We were unable to determine the likely cost of unfinished works.

(b) *Other*

Storage cupboard subject unit – Motion 5 in the attached minutes of the September 2018 SCM refers to this matter. We did not sight any further mention of this matter and have asked the strata manager to let us know the position.

2.13 Strata plan

(a) *Date of registration*

10 December 1975

(b) Original owner

Unable to determine

(c) Is the scheme in the initial period?

No

2.14 Certificate of title

(a) Sighted

Yes, search copy dated 11 February 2020 of edition 9, dated 15 November 2019

(b) Number of lots

40

(c) Aggregate unit entitlement

1,000

(d) Unit entitlement of subject lot

36

(e) Percentage of unit entitlements compared to aggregate unit entitlement

3.6%

(f) Subdivision of scheme or lots

The scheme incorporates SP43799.

2.15 By-laws passed/registered since the scheme was registered

(a) Subject matter

Consolidation of Registered By-laws – AP987650

(b) Registration numbers of by-laws

As above

(c) Unregistered bylaws

None sighted

2.16 Materially significant* breaches of by-laws

We sighted breaches of by-laws and complaints, as follows:

Party noise from Unit 11, residents parking in visitor spaces, washing on balconies.

2.17 Keeping of animals

See by-law 16 in the Contract for Sale.

2.18 Insurances

Attached is a copy of a certificate of currency containing details of the insurance policy held by the owner's corporation relating to building and general insurance.

Headline information:

Insurer:	AAI Ltd
Broker and contact details:	BAC Insurance Brokers phone 9360 2244
Policy expiry date:	30 November 2020
Policy current premium:	\$ 40,236.12
Excess on building related claims:	\$2,500 on all burst pipe/water damage claims, \$5,000 on all storm and tempest claims and \$1,000 on all other building related claims.

Comment

Your lender will require a copy of a certificate of currency of insurance before making funds available to you to settle. Strata managers are not required under their management agreements or by law to obtain a certificate of currency. Sometimes, as a courtesy they obtain these certificates, and we then make a copy available to buyers.

If the certificate is not attached to this report, or if the current policy expires before settlement, an updated certificate of currency can be obtained by contacting the broker through the contact details identified above. Most brokers will refer buyers to their websites where the certificate can be downloaded for a fee.

If the insurer and/or broker have changed, contact details for the broker can be obtained by contacting the strata manager whose details are provided in Part 2.5 of this report.

* For important comment on the meaning of 'materially significant' see Part 4.5. [\[Materiality\]](#)

3. Relevant article

Buying into an older strata complex

1. Introduction

This article has been included in our report because your unit is in an older strata complex.

That means you need to take into account age-related issues which may be present in either or both of your unit and the complex itself. This article describes in general terms some of those issues which may be present.

Their presence could mean added expense and inconvenience for you as described in the article.

You should discuss the contents of this article with your lawyer or conveyancer.

2. Background

Strata legislation was first introduced to New South Wales, and indeed the world, in 1961. Prior to that date, apartment living in New South Wales generally consisted of company title complexes, where owners bought shares in a company which owned the entire complex. The shares gave them an exclusive right to occupy a specific apartment in the complex.

Many company title complexes have been converted to strata title, and still survive to this day.

For modern day buyers this means that they have opportunities to buy into apartments which may be over 100 years old. Even those complexes built after strata legislation was first introduced in 1961, are now anything up to nearly 60 years old.

3. Layers of expense

Overview

For buyers contemplating purchasing a lot in an older complex it is important to take into account that generally the ongoing repair, maintenance and upgrade expenses are higher than in newly constructed complexes. That is because there are at least two further layers of expense. Newly constructed strata complexes generally only have one layer.

First layer of expense – the original structure

The first layer of expense relates to the fact that the complex could be up to or even over 100 years old. Because of its age, it is often more expensive to conduct repair and maintenance works. Reasons include:

- sometimes it is difficult to obtain materials to repair these structures which means they have to be created by hand (for example, doors and windows)

- in some much older structures, skills used in constructing the original building have sometimes been lost and new techniques need to be developed to complete repair and maintenance work; and
- in many cases, older complexes are of historical significance. That means there may be statutory and planning requirements preventing changes being made when upgrade works are required, particularly to facades.

For example, in modern strata complexes when exterior windows require replacing, the less expensive aluminium window surrounds can be used. In older complexes, with lap and sash wooden windows, authorities generally require replacement windows to be of the same type. In that event, the construction and installation works can be expensive.

For buyers, it is generally impossible to arrange for thorough inspections of all an original structure to be undertaken. This is because of access restrictions to the whole site, and because invasive inspections involving techniques such as drilling will not be permitted.

It is also important to keep in mind that where a developer converts an older complex to strata title, in most cases the developer will not have renewed/upgraded all of the original structure. The local council may have only required fire safety and WH&S upgrades to have been made, and then only to the standard applying at that time.

That means buyers are often taking the chance of expensive age-related repair and maintenance issues being present when they buy into an older complex that has been converted to strata.

Common issues of concern with older strata complexes include:

- Electrical services. Often switchboards need upgrading not only to deal with age related issues, but also to cater for the heavy electrical loads modern appliances such as air conditioners apply;
- Window, roof and guttering/downpipe repair/replacement;
- Driveway repair/replacement;
- Building foundation works including issues of rising damp; and
- Fire safety and WH&S/asbestos related expense

Any of these works can be expensive.

Second layer of expense – Service upgrade related expenses

Older strata complexes have a second layer of expense. They relate to installing 20th and 21st century service-related additions in an older complex which was never designed for such additions. This could include fire safety devices, modern plumbing, electrical upgrades (for example to ensure there is enough capacity to run air conditioners), intercoms and the internet. These additions often can become the subject of extra expense because of their non-standard nature in the context of the original development.

It is particularly common for such upgrades to be more expensive.

Installers will often charge more to upgrade facilities such as intercoms, Foxtel, and internet broadband because of perceived age/conversion related issues in older strata complexes.

Buyers can ask their building inspectors to specifically comment on whether it is apparent that service-related upgrades have been undertaken. We can often also provide such information from our inspection of the records as mentioned below.

Third layer of expense – modern improvements to the original structure

It is likely that older strata complexes will have had ongoing repair and maintenance works. Works such as roof replacements, balcony, façade and window upgrades, driveway replacements to name a few, may well have been undertaken.

All of these upgrades will age and require repairs and replacement as years go by.

It is a general rule of thumb that levies in older strata complexes will be higher than levies in more modern complexes because of age-related repairs and maintenance. The degree will vary from complex to complex depending on the quality of the original construction, the location of the complex (wind and weather factors apply), and the commitment of the owners corporation to attend to repair and maintenance requirements as and when they fall due.

This is the main layer of expense in most strata complexes. As mentioned, older strata complexes have another 2 as mentioned above.

4. Ways for buyers to identify age-related repair and maintenance issues

Strata records inspection

In the same way that a buyer of an older motor vehicle will want to investigate its repair and maintenance history to make sure that it has been well maintained, so buyers in older strata complexes can establish through an inspection of the records of a strata complex, the repair and maintenance history of the complex.

We as experienced strata inspectors can look for evidence of expenditure on items such as the ones referred to above.

That means when undertaking inspections of the records of an older complex, we will report on the repair and maintenance history for at least the last 5 years, to the extent that time constraints imposed on us allow us to do that.

Of course, we can only do that to the extent that records are made available to us. It is relevant that strata managers are not required to keep strata records for more than 7 years.

Building inspections

With older strata complexes we always recommend a building inspection be undertaken to identify age related concerns. You should check that your inspector is familiar with strata complexes. The repair and maintenance issues are very different to free standing homes.

5. Conclusion

Some of the most desirable and iconic accommodation in New South Wales is to be found in older strata complexes. The comments above are not meant to deter buyers from purchasing lots in this type of accommodation. Rather, they are meant to inform buyers that they should be aware when buying into an older complex that ongoing repair, maintenance and upgrade costs are often more expensive than those in a newly constructed complex.

4. Qualifications

4.1 Records inspected

The information provided in this report and the conclusions reached, are based on the records made available to us by the strata management business at the time of our inspection.

Other than in obvious cases, we have no means of independently verifying that all records have been made available to us.

If relevant records have not been made available, the information in this report may be misleading or incorrect.

4.2 Copies

For the purposes of this report, we have assumed that copies of documents we have sighted, whether hard copies or electronic, are true copies of the original documents.

4.3 No warranty

This report is a record of relevant information in documents provided to us by the strata manager during our inspection. It does not amount to a warranty that any of those documents are valid, enforceable, subsisting or correct.

4.4 Time constraints

Strata managers generally limit our inspection times to between 60 and 90 minutes. Apart from time of day considerations, this is because of a variety of reasons including:

- there are a large number of strata inspectors wishing to inspect records and often the offices of the strata manager can only accommodate one or two inspectors at a time;
- most strata managers have their records stored on computer and there are often insufficient terminals for a number of strata inspections to be conducted at one time; and
- with popular properties, there may be other inspectors lined up wanting to inspect the same records.

The problem is compounded because we as inspectors rarely know the volume of records we will be required to inspect until we actually arrive for the inspection. That often means we will be unable to conduct lengthy searches even if we are permitted to do so by the strata manager, because we have other search appointments on that day we must keep.

Where we state in our report that we were unable to inspect certain records because of time constraints, we are able to make another appointment with the strata manager to inspect the balance of the records. In that event, further fees and charges will usually apply.

4.5 Materiality

(a) In determining whether an issue is of 'major concern' or of 'concern', we have applied objective considerations. That means:

- in the case of an issue of major concern, we have taken the view that most potential buyers would regard the issue as of such significance that it could determine whether they would proceed with a purchase of the subject lot; and
- in the case of an issue of concern, we have taken the view that most potential buyers would regard the issue simply as of concern, and as something they should take into account or seek further information about when considering whether to proceed with a purchase of the subject lot.

Buyers who are reading this report should keep in mind issues of personal importance to them. That may mean an issue expressed in this report as simply of concern may be of major concern to them.

For example, a possible expense of \$1,000 which may be imposed on them as buyers, is not in our view an issue of major concern to most buyers and will not be disclosed as such in our report. However, for a first home buyer with limited savings, it could be of major concern to them.

Buyers should also keep in mind that an issue described as being of concern may become of major concern when all information about the issue is known. For example, a by-law which requires the owner of the subject lot to install and maintain an air conditioning unit in a particular way may become a major concern if investigations disclose the air conditioner was not installed or maintained in accordance with the by-law.

(b) The terms 'material' and 'materially significant' mean:

- we have taken into account those issues which are likely to be of concern to most potential buyers of this lot in the complex. We have not undertaken a risk assessment of other issues relevant to a buyer personally, unless this report identifies such an assessment has been requested; and
- thresholds/levels of importance have been applied in selecting the information disclosed. They are based on the financial capacity and size of the scheme, and the significance of the information to most potential buyers of this lot in the complex. That means if information does not reach the level of importance we apply based on these factors, it will not be included in the report.

In ordering this report, buyers have been invited to specify issues of personal significance to them. For example, if a buyer is a smoker, a by-law banning smoking in the complex may be of material significance and should be disclosed to us when ordering the report. We take the view that such a by-law would not be of concern to most buyers and therefore would not be described as such in our report.

If you as a buyer have failed to provide such information that is personally important to you when ordering this report, you should contact us immediately.

4.6 Compliance

Except to the extent materially relevant to a purchaser of a lot in this scheme, this report does not include any comment on whether the strata manager, the owners corporation or any other organisation, committee or individual involved with the scheme is complying with practice or accounting obligations imposed on them by law.

4.7 Benefit of this report

This report has been prepared for the benefit of the client and that person's advisors. The report may not be relied on, used or reproduced by any other person without the written permission of Pink Inspections Services.

Pink Inspection Services reserves the right to on sell this report and attachments to other persons including prospective buyers of this unit or other units in the complex.

4.8 Communication with strata managers

On most occasions, no contact is made by us with strata managers to discuss matters relevant to our report. This is because:

- (a) generally, strata managers will not talk with us because they say:
 - (i) their professional indemnity insurance does not cover any information they disclose to us; and
 - (ii) their clients are the lot owners making up the owners corporation, and there is a conflict of interest in providing information to us as a third party that may materially impact on a sale; and
- (b) if the strata manager at a later stage denies or disputes what was said in a conversation with us, it is often difficult to prove what was said.

This means, it is preferable that if questions need to be asked of the strata manager, they be asked by the client or their representative, in writing through the vendor or the vendor's representative such as the agent having the conduct of the sale. If we disclose the contents of a conversation we have had with a strata manager in this report, this should be kept in mind.

4.9 Status of relevant articles in Part 3

Where relevant articles prepared by us have been included in Part 3, they are included to provide general information only. It is possible that none of the issues/features referred to in the article as being of concern or interest to a buyer may be present in the complex, the subject of this report.

4.10 Missing documents

It is our experience that strata managers almost always have separate files to the files made available to us for our inspection. In some instances, it becomes obvious to us that documents or information are missing from the records made available to us. A common example is where the records of the strata manager refer to a building defect report which was not in the records made available to us.

Where that occurs and the strata manager is unavailable to assist us, we will point this out in our report and recommend that you follow up the strata manager to seek the missing documents or information.

It is our experience that many strata managers respond to such a request by claiming that the missing documents or information were always with the records made available to us, even if that is not the case. In other words, they will claim our inspector missed seeing the relevant documents or information.

We have often sought explanations from strata managers about why they so often make such incorrect claims. They have informed us informally, that their insurers have instructed them to respond in this way. They claim that to admit that documents or information were not initially made available for our inspection, is an admission of liability which may lead to a successful claim of damages against the strata manager.

Attachments
