

# Strata Levies and Capital Works

## NSW strata legislation change 30/11/16

The new NSW strata legislation requires owners to 'actively consider' how they want their future maintenance and capital works to be funded.

The new legislation does not require owners to fund capital works budgets solely by regular levies to the capital works fund. Owners still have the right to choose to fund capital works by regular levies, one-off levies, a strata loan, or any mix of these.

Owners and strata managers should take into account the specific attributes of the property and the position, needs and objectives of the owners.

### **What does the new legislation say?**

Firstly, the name will be changed from 'sinking fund' to 'capital works fund'.

Secondly, owners are required to 'actively consider' how to best fund the maintenance and capital works at the time a new 10 year capital works budget is adopted.

Lannock agrees with the 'active consideration' requirement. It makes good economic and financial sense to consider the merit of all options when making important decisions.

### **How are strata schemes going to manage this?**

Sometimes the answer is simple: "There aren't many of us, we're all in pretty much the same position, and we know what we want."

But the vast majority of situations aren't that simple: "What if the future works are complex? What if some of the costs are huge? What if we all have different budgeting needs and finance objectives?"

The best way will vary according to each owners' position and the nature of the property. For some, this could be regular series of small levies, for others a large special levy and for others a strata loan. For most, it will mean a mix of all three.

Continues on the next page

## **So, what do we need to take into account to 'actively consider' the funding options?**

In our view, the requirement to 'actively consider' the best funding mix should be done as part of the annual budget exercise. Situations change and what is right for a group of owners will evolve over time as needs and objectives change. Here are a few considerations:

1. The extent and cost of the maintenance of the capital works
2. Nature of the property – residential, commercial, mixed-use, leisure accommodation – each of these will necessitate a different approach to funding
3. The financial and tax position of each of the owners
4. The cash flow and taxation impacts of each of the funding options. Independent advice should be sought by owners on potential tax benefits of borrowing
5. Owner's objectives – do they want lowest cost of funding? Or to keep levies low? Or do they want large cash balances on hand?
6. Potential for redevelopment of the site

## **Capital works funds vs borrowing**

Raising levies to build large capital works funds is not the only and certainly not the best solution. It takes a long time to accumulate money in a capital works fund, let's call this the 'waiting period'.

- Raising levies places an ongoing financial burden on owners, and they can't use this money for other purposes during the waiting period
- Projects are often delayed until enough money has been accumulated. The property may deteriorate further and increase legal and financial risk during the waiting period
- Some owners may sell, and never see any benefit from the increased levies they have been paying

When a strata loan is used as part of the funding mix, owners benefit:

- The works can be completed sooner
- Investors can seek better rental returns and occupiers enjoy the benefits of living in the improved property
- The works are completed at today's costs, and the property value is enhanced
- Once works are completed, any property sales can likely benefit from higher prices

## **How can Lannock help?**

Obviously, as a specialist strata lender we are ready and willing to help whenever an owners corporation considers that borrowing is a good option within their funding mix.

Call us today or visit our website if you'd like to know more.

Lannock is the leading strata financing specialist in Australia, providing strata loans to owners corporations and bodies corporate. We are experts in the issues that affect owners and occupiers in strata buildings and are committed to solving the financial challenges that arise. Find out more at [lannock.com.au](http://lannock.com.au)