

# Bodybuilding fees

Knowing and understanding your body corporate fees is an essential tool in calculating the merits of a community title investment. **Shane McNally**

**B**ODY corporate fees are an accepted part of buying into a community or strata title premises but many people paying them don't know exactly what they're getting for their money. So knowing how the charges are determined and under what circumstances they'll be increased are questions worth asking before falling in love with the ensuite bathroom or the view.

For investors looking for rental returns or capital gains, the questions and the right answers are essential.

The amount of the fees depends largely on the premises and the quality of service offered. So does what you get for your money.

Costs are assessed in two categories – the actual fee charged to manage the property and the calculated cost of its ongoing maintenance. The former can run from \$150 to \$200 per year; the actual maintenance costs can and usually do increase that figure to around \$1000.

While some managers of bodies corporate are more comprehensive and better run than others, services generally range from ongoing maintenance and emergency repairs to security, dispute resolution, financial management and insurance issues.

The most common responsibility of a body corporate manager is keeping the premises in good working order and this usually relates to general maintenance. These duties can involve painting, lighting, carpet replacement, window and general cleaning, plumbing needs, electrical matters and maintaining air conditioning, heating, ventilation, security systems and fire safety equipment. On top of this, the more visual work carried out includes general

grounds maintenance and the regular servicing of social areas such as swimming pools.

Maintenance may be the most obvious service provided but assisting with annual general meetings and insurance are all part of the deal and dispute resolution can be a time consuming and costly exercise.

Finding the right price for body corporate services is a key factor for many potential owners and investors and can be the difference between making the purchase and moving on to the next property.

## Value for money?

Whittles Body Corporate Management assistant general manager Carolyn Murdoch says management fees are often significantly lower than those charged by a property manager, even though the service is much greater.

"The industry generally charges on a per unit basis so the cost

per unit might be a little bit higher for each unit in a small group than it would be for a larger group," she says. "When you get to a larger group, there may be more issues but some of the management requirements are no greater and the fee per unit may be cut back.

"The \$150 or so per unit that we generally require, if that was equated to the number of hours you do for a corporation, it's still fairly low considering what we do for our clients compared to a property manager."

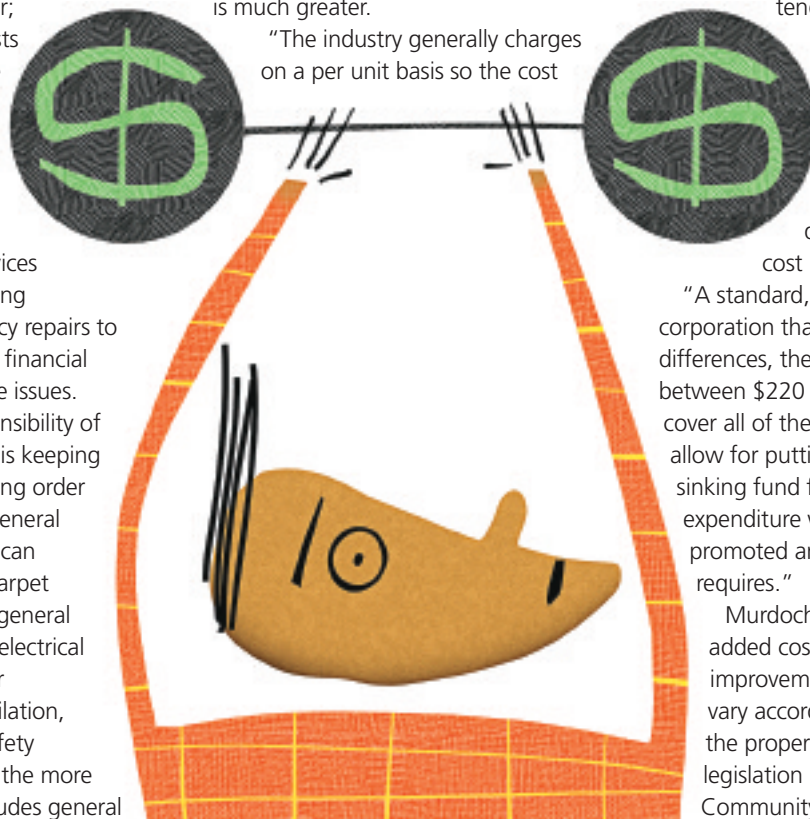
Murdoch emphasises the \$150 per year takes care of the management of the group and there are obvious further expenses in the actual maintenance of the property.

"We sit down and work out the costs that might be involved in a year," she says.

"The management fee allows us to put out tenders for a lawn contractor or for building insurance or a cleaner. We take care of all of that by getting contractors to give the corporation quotes for the work that needs to be done and incorporate that cost into the quarterly fees paid.

"A standard, straightforward residential corporation that doesn't have any major differences, they're probably looking at between \$220 and \$250 per quarter to cover all of their expenses. That doesn't allow for putting money away for a sinking fund for long-term capital expenditure which we've always promoted and legislation now requires."

Murdoch says the sinking fund, an added cost that takes care of future improvements and upgrades, can vary according to the age and size of the property. She says while the legislation under the Strata Titles and Community Titles acts in South



Australia doesn't set a fee for the sinking fund, it does require the need to be addressed.

Increased fees for the general management of the corporation, she adds, are more likely to come from time-consuming matters such as dispute resolution and the need to address maintenance and repair matters of an ageing property.

"Some groups will have an unreasonable or difficult person that you're just constantly trying to work with and the time that they take up unfortunately can lead to an increase in fees," she says. "Similarly, dealing with someone who has significant arrears can cause problems with the budget and lead to cash flow problems and more administration time that may need to be addressed when the body corporate sets its annual management fees.

"The third thing is out of ordinary building maintenance, such as when a group hasn't done any maintenance for years and not budgeted for it and all of a sudden, they need to replace all their cold water pipes or a roof or do some major painting jobs. When that happens, it requires time to review the situation and get contractors to quote on each project, liaise with the corporation and make sure the job gets done."

Ace Body Corporate Management chief executive Stephen Raff says each property needs to be assessed on its individual merits because of the enormous variation in requirements often encountered.

## "Body corporate managers need to be 25 per cent lawyer, 25 per cent accountant and 50 per cent social worker."

"Managers should inspect the property before giving a quote," he says. "They'll look for things like whether it needs repainting, are the gutters in bad repair, is the roof in bad repair, do the driveways need replacing, are the retaining walls pushed out, does the balustrade need replacing? These are matters of legal liability for the body corporate and for the manager.

"There are lots of occupational health and safety legal issues to consider because common property is now deemed a workplace and a good manager needs to consider all of these things."

Legal disputes already pending and conflict within the body corporate, Raff continues, are other issues that factor into management fees. He says that fee in the eastern state capitals ranges from \$160 per unit per year in the outer suburbs to between \$200 and \$500 in the inner suburbs and city, with the higher figure often relating to high-rise buildings with lifts, swimming pools, saunas, spas and underground car parks.

"Contribution fees are different of course," he adds. "They include the management fees and they'll range from \$900 per year per unit to as much as

\$15,000 for an exceptional property. The Institute of Body Corporate Managers in Victoria has a recommended schedule of fees but fees can vary depending on the quality of the units."

### **Increase expected**

Raff says Victorian body corporate members should expect a significant increase in their management fees when the new *Owners Corporation Act* is enacted on or before January 1, 2008, because of the "increased compliance" requirements put on managers.

"I'm using a quote I heard at a conference in Sydney recently but it's accurate – body corporate managers need to be 25 per cent lawyer, 25 per cent accountant and 50 per cent social worker. A lot of managers now actually look at the property and don't go by the unit number but by the time it's going to take to manage the body corporate.

"There are a lot of circumstances that could lead to an increase in charges from one year to the next," he adds. "You're dealing with every personality style you could imagine and it takes time when there's conflict, which can eventually lead to an increase in charges." ■