

The Hon Tom Kenyon MP
Presiding Member
Environment, Resources and Development Committee
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Strata Titles Inquiry

Tom

Dear Hon Tom Kenyon MP

Thank you for the opportunity to provide comment on the Environment, Resources and Development Committee's Strata Titles Inquiry.

Strata title is a popular form of property ownership. It is an effective means for individuals to attain real estate in small, affordable parcels.

While the amendments made in 2012 to the *Strata Titles Act 1988* were valuable in the improvements they made to business and contractual efficiencies, there are still some areas of the legislation that need further amendments due to the obstacles it will present for infill development.

The Property Council of Australia is pleased to see that the NSW State Government has recently released two draft bills to modernise that state's strata laws. The proposed legislation will introduce a collective sale and renewal process and will reduce the threshold for agreement to end a strata scheme from 100 per cent to 75 per cent of owners.

The intention of the collective sale and renewal of ageing stock is to deliver urban renewal and boost housing supply. This is the type of reform that we should be supporting in South Australia.

The regulatory barriers that act as a handbrake on the revitalisation of buildings that have reached the end of their economic life need to be removed. The introduction of new thresholds for renewing strata schemes can help with both housing supply, as well as the conversion of commercial office stock to more contemporary offerings.

Cancellation of a strata plan

The Property Council has long supported a reduction in the level of owner support needed to cancel a strata plan.

Existing law demands all owners agree to amend or dissolve an existing scheme, as well as third parties such as lenders.

The current model of resolution without dissent allows for a single vote against a sale or redevelopment proposal to stop it proceeding, regardless of the proposal's merits.

Achieving a unanimous decision from all owners to cancel a strata plan is very difficult, if not impossible to achieve, and is placing financial and safety risks on owners.

To ensure a fair outcome for all owners, the Property Council recommends replacing the current requirement for a unanimous resolution to approve the cancellation of a strata plan, with a requirement that no more than 25 per cent of owners vote against the termination.

The Property Council believes that a threshold of 25 per cent of owners voting against a proposal strikes a reasonable balance between protecting owners' rights and improving on the existing arrangements. Reducing the threshold from a unanimous decision is also consistent with international best practice.

Some best practice examples include:

- **New Zealand:** currently allows scheme termination with a 75 per cent voting threshold.
- **Japan:** has a termination threshold of 80 per cent.
- **Hong Kong:** has a termination threshold of 90 per cent; however, authorities have the discretion to stipulate a reduced threshold of 80 per cent.
- **United Kingdom:** the *Commonhold and Leasehold Reform Act* in the United Kingdom sets a termination threshold of 80 per cent.
- **Singapore:** employs a sliding scale for termination thresholds. Under this system, strata schemes that are less than 10 years old have a 90 per cent threshold, and schemes over 10 years old have an 80 per cent threshold.

Each of these jurisdictions recognises that a fair and sensible approach requires a majority decision – rather than a unanimous one – for the cancellation of a strata plan.

There are also a number of other issues that are exacerbated by the status quo and have impacts on infill development, which are significant considering the density agenda being pursued by the property sector and State Government.

Ageing stock

Many of metropolitan Adelaide's strata title properties are past or advancing towards their natural physical or economic life and require renewal. In the context of our city's need to increase housing density and to build strong and more prosperous local communities, this obstacle must be bulldozed.

The design imperative

Some strata titled buildings were conceived prior to good design principles becoming common place. Without the capacity for renewal, there will be reduced livability of the older, poorly designed stock. These properties will remain problematic and unattractive, destined to remain an indefinite disfigurement on our urban landscape.

Lack of Maintenance

It is not uncommon for strata schemes to consist of multiple lots in separate titles. This makes agreement on maintenance difficult and exaggerates the decline in quality, safety and lifespan of current buildings. It also undermines the initial investment of owners.

Expertise and Risk Management

The costs, procedural complexity and resource challenges of undertaking a complete redevelopment act as a deterrent to renewal by existing owners.

Other information that may be of interest to the Committee – which is related to this inquiry – is a paper previously published by the Property Council which details a Strata Title Renewal Plan Process.

The introduction of a renewal plan will give owners confidence that an effective and transparent process is in place to terminate strata schemes. The paper can be viewed at this link:

<http://www.propertyoz.com.au/library/Strata%20Title%20Renewal%20Paper.pdf>.

The Property Council also recommends that the Committee explore the issue of strata title insurance.

Currently, the Strata Corporation is required to insure all buildings under the *Strata Titles Act 1988*, and each strata owner is also required to take out their own insurance over part of a building. To some extent there is a double-up of insurance. It may be worthwhile for the Committee to investigate this matter.

If you or any of the members of the Environment, Resources and Development Committee have any questions regarding this submission, please don't hesitate to contact my office on 8236 0900.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Daniel Gannon', is positioned above the printed name.

Daniel Gannon | SA Executive Director

20 July 2015

What is the Property Council of Australia?

The Property Council of Australia is the national peak industry body representing property developers, property investors and businesses that provide professional services to the property industry in Australia.

The Property Council of Australia's vision for South Australia is a thriving, modern economy supporting prosperity, jobs and strong communities.

In respect to the overall State economy, the property industry is the largest private sector employer in South Australia and overall it is the third largest private industry sector by economic output. Investment in property also represents the major assets of individuals, families and business, through direct ownership, superannuation funds, savings and investments.

The property sector has a larger footprint on the South Australian economy than any other industry.

- It directly contributed \$10.5 billion to Gross State Product (GSP) in 2013-14 (10.8%), and is estimated to have contributed a further \$16.3 billion to South Australia's GSP through flow-on demand for goods and services (16.8 % of GSP).
- It also directly employed 73,325 full time equivalent (FTE) employees in 2013-14 (10.5 % of South Australia's total), and supported some 95,011 FTE jobs through flow-on activity (13.6 % of South Australia's total).
- It directly paid approximately \$4.4 billion in wages and salaries to South Australian workers (9.8% of South Australia's total wages and salaries paid), and a further \$7.2 billion to South Australian workers through flow-on activity (16.0% of South Australia's total).
- The majority of property sector activity is generated by the residential property subsector.
- The property sector contributed approximately \$3.6 billion in combined South Australian Government tax revenues and South Australian local government rates, fees and charges revenue in 2013-14. This equates to 56.6% of total State taxes and local government rates, fees and charges revenues in 2013-14.
- Residential property ownership is not the only way every day Australians participate in the property sector; 1.29 million South Australian residents have a financial stake in the property industry through their super funds.