

Below is a summary of a presentation that Matt Garmony, Licensed Valuer and Managing Director of Garmony Property Consultants, gave to the Bachelor of Commerce - Property students at Curtin University in March 2015.

VALUING STRATA LOTS AND DIFFICULTIES ENCOUNTERED

1. DEFINITIONS

Strata scheme means —

- (a) the manner of division, of a parcel into lots or into lots and common property under a Strata Plan and the manner of the allocation, of unit entitlements among the lots; and
- (b) the rights and obligations, of the proprietors and other persons having proprietary interests in or occupying the lots and the strata company.

Strata lot, in relation to a strata scheme, means one or more cubic spaces forming part of the parcel to which a strata scheme relates, designated as one lot or part of one lot on the floor plan forming part of the strata plan. Cubic space, is the base of the vertical boundaries as delineated on a sheet of that floor plan and the horizontal boundaries.

The definition of “**floor plan**” generally referred to as a square metre area in most cases

- (i) in the case of a vertical boundary — the inner surface of that wall; and
- (ii) in the case of a horizontal boundary — the upper surface of that floor and the under surface of that ceiling;

However, notwithstanding the above — a Strata Plan can create a boundary external to a building or other prescribed circumstances, the floor plan may include dimensions or survey information defining that boundary, i.e. Airspace

Survey Strata lot, means land that is shown as a lot consisting of one or more parts on the plan for that scheme, but does not include —

- (a) a lot shown as common property; or
- (b) land shown as being set aside for a road or reserve;

2. STATEMENTS & BY-LAWS

A **Management Statement** is a document setting out the by-laws of the strata company in relation to any matter and includes any amendments and repeals. A strata company may make By-laws for —

- its corporate affairs;
- The control or preservation of the essence or theme of the development including;
 - Architectural and landscaping guidelines to be observed by proprietors,
 - Plot ratio restrictions and open space requirements,
 - The control, management, use and maintenance of any part of the common property, including any special facilities provided on the common property, (pools, tennis courts, gyms, BBQ facilities)
- other matters relating to the management, control, use and enjoyment of the lots and any common property.

These are often important when valuing mixed use buildings as commercial owners and tenants may not have access to these common facilities mentioned above and may have an effect on the market value of the unit.

Lift costs

Common area costs

The proprietor of a lot shall not cause or permit —

- (a) any structure to be erected; or
- (b) any alteration of a structural kind to, or extension of, a structure, on his lot except —
- (c) with the prior approval, expressed by resolution without dissent, of the strata company or other proprietor in the case of a two lot scheme.

5D. Creation of easements by notation on survey-strata plans

- (1) A survey-strata plan lodged for registration may, provide for easements that will have effect on registration of the plan.
- (2) An easement has an effect in favour of a lot (the dominant lot), and against another lot (the servient lot), i
- (3) An easement are noted on the plan, showing the location of the easement;
 - (b) the dominant and servient lots; and
 - (c) a specification of the easement by use of the short form description

These may be sewer or drainage easements, party wall easements or rights of carriageway or access.

Therefore it is important to search a copy of the Management Statement when valuing strata titled properties to determine what the owners can and can't do.

3. UNIT ENTITLEMENT

Establishes

The voting rights of a proprietor

The undivided share of each proprietor in the common property

The proportion of levied contributions of each proprietor

Unit Entitlement of lots relates to a certificate prepared by a licensed valuer and is required to accompany a Strata or Survey-Strata Plan and a plan of re-subdivision lodged for registration shall certify that, the unit entitlement of each lot, bears in relation to the aggregate unit entitlement of all lots delineated on the strata or survey-strata plan, a proportion not greater than 5% more or 5% less than the proportionate value of that lot bears to the aggregate value of all the lots delineated on the plan.

(2a) In subsection (2) of the Strata Titles Act value means —

- (a) in the case of a strata scheme, the capital value within the meaning of the Valuation of Land Act 1978; and
- (b) in the case of a Survey-Strata Scheme, the site value within the meaning of that Act.

Reallocation must be by resolution without dissent (or unanimous resolution, in the case of a two-lot scheme)

However, upon the application of a proprietor of a lot or a strata company, the State Administrative Tribunal (SAT) may, order that the schedule of unit entitlement be amended.

4. RELATIONSHIP BETWEEN A STRATA UNIT'S SALE PRICE AND ITS UNIT ENTITLEMENT

Capital Value: is defined in the Valuation of Land Act 1978 (WA), in the case of lots in a strata scheme:

means the capital amount which an estate of fee simple in the land might reasonably be expected to realize upon sale — provided that where the capital value of land cannot reasonably be determined on such basis, the capital value of such land shall be the sum of, first, the unimproved value of the land, and, secondly, the estimated replacement cost of improvements to the land after making such allowance for obsolescence, physical depreciation, and such other factors as are appropriate in the circumstances;

With large strata complexes the second approach in my opinion requires numerous assumptions and opinions by the valuer or extensive and details reporting by numerous consultants in regards to building costs, depreciation schedules, assessment of land values etc. Not Practical.

Site Value: is defined in the Valuation of Land Act 1978 (WA),

site value of land means the capital amount that an estate of fee simple in the land might reasonably be expected to realize upon sale assuming that any improvements to the land, other than merged improvements, had not been made and, in the case of land that is reserved for a public purpose, assuming that the land may continue to be used for any purpose for which it is being used or could be used at the date of valuation;

Market Value: "The estimated amount for which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably, prudently, and without compulsion."

5. INFLUENCES – MARKET VALUE

Market Value can have both positive and negative influences

Lot characteristics

Shape of the lot/unit – Frontage, depth, topography, wider/narrow, above/below road, corner

Number of bedrooms and bathrooms \$\$\$

Size of the lot /unit – square metres of living area – large 4x2 or small 4x2

Size of balconies, yards etc. \$\$\$

Number of car bays and size of storerooms - \$\$\$

Size of the complex, age & condition

Position in the complex – i.e. Raffles Hotel and Units

Complex common facilities – pools, tennis courts, saunas, spas, steam rooms, BBQ areas, lounges, roof top decks, concierge services - \$\$\$

Views & Aspect

The views or aspect of a property will have an impact on what the market is willing to pay for a property, particularly apartment units in similar localities. Generally, the market will pay more for a unit with a better view (with all other features being equal) as it adds to the ambience and desirability.

Units with superior views will generally sell for a higher price than those without city, river, ocean, parkland, elevated positions etc.

Negative Aspects

Views blocked by nearby buildings, trees, below road grade, industrial areas, train lines, power lines

Location

NEGATIVES

Next to car parks, close noisy pools or common areas, lift motors, main roads, bin storage areas, next to commercial properties, pubs (Raffles Applecross), opposite industrial areas, power stations, freeways.

POSITIVES

Next to, opposite or adjacent to parks, rivers, bushland, beach, recreation areas and close to public transport, shopping facilities and entertainment precincts (Beaufort Street, Mt Lawley)

Economic

- Interest Rates
- Unemployment
- Government Spending
- Business & Consumer Confidence

6. VALUATION PROCESS

Comparison of nearby comparable units / lots based on

Square meters of floor area - Compare like with like

Accommodation - Bedrooms and Bathrooms

Balconies - Size, utility, roof top decks

Car bays - Number, type (covered / open) secured, unsecured, tandem, stackers

Location - Compare similar locations – Same suburb or similar locality

Views & Aspect - Buildings, trees, City, river, ocean

Position in the complex: next to bins, car parks, pool, hotels or front of the complex as opposed to the rear.

Rights of the proprietor based on the By-laws in the Management Statement

Adjustments to the property being valued need to be made for the different features of the sales evidence analysed.

7. DETERMINING UNIT ENTITLEMENTS

Site visit

It is ideal to inspect as many of the units in a complex as possible however in large complexes, the practicalities of doing so inevitably proves difficult.
Very hard to get all owners to agree or tenants to allow access.

Analysis of sales evidence

Best evidence is recent sales within the complex or similar located, style and age complexes
– Balconies, views etc.

Consider each unit's features

Based on the valuation process discussed earlier
Cubic space assessment
Square metre of floor area
Accommodation
Location
Views and aspect

Assess the proportion of values

Assess a value for each individual lots making comparisons to other lots within the complex
Determine the proportion the units value bares to the Aggregate of values which is generally out of 10, 100, 1,000 or 10,000

Confirm the Unit Entitlement assessment in the Form 3 document

Make sure the values adopted are the unit entitlements and not areas and they add up to the amount stated on the form.

8. STRATA LOT BOUNDARIES

Except where section 3AB applies, the boundaries of any cubic space referred to in paragraph (a) of the definition of “floor plan” in subsection (1) —

- (a) except as provided in paragraph (b) —
- (i) are in the case of a **vertical boundary** the **inner surface** of that **wall**; and
 - (ii) are, in the case of a **horizontal boundary** — **the upper surface** of that **floor and the under surface of that ceiling**;

Typical Purchaser

In my experience a typical purchaser has a limited knowledge of the Strata Titles Act and their motives on purchasing a strata titled property is based on what they can see.

- Number of Bedrooms and bathrooms
- Floor area on the strata plan
- Number of car bays they can see or identified on the strata plan (part lots, exclusive use, by-laws notification, markings in the car park)
- Yard or balcony (part lots, exclusive use, common property)

This lack of knowledge can cause issues when disputes arise

- What you actually own
- Repairs and maintenance issues – who pays
- Strata conversions – exclusive use to survey strata, mergers and conversions
 - Location of the fence compared to the unit entitlement
 - UE is 50:50 but the dividing fence is less than half.

9. STRATA GOING FORWARD

Issues going forward

- Maintenance and major common property refurbishments – Maintenance Levies and in a lot of cases a lack of for;
 - Concrete Cancer
 - Structural damages - new roofs, damage to car parks, lifts and other common property
 - Window replacements
 - Lift replacements, water pumps
 - Painting (external painting is the responsibility of the Strata Company.
 - Special levies raised for major works often have a negative impact on the saleability of the units and therefore the market values.

Insurance Issues

- Change in zonings
- Insurance valuations
- Not being able to rebuild what existed due to changes in the Town Planning Schemes. New buildings not conforming.
- Alternative sites or accommodation may need to be purchased.

Unit Entitlement Re-Assessments

- Act definitions / practical applications
- Landgate is driving the Strata Reform process. It is valuers and other property professionals opinions, that there needs to be some significant changes and reviews of the Strata Titles Act from a valuation and management perspective and I assume surveyors would be encountering issues as well.

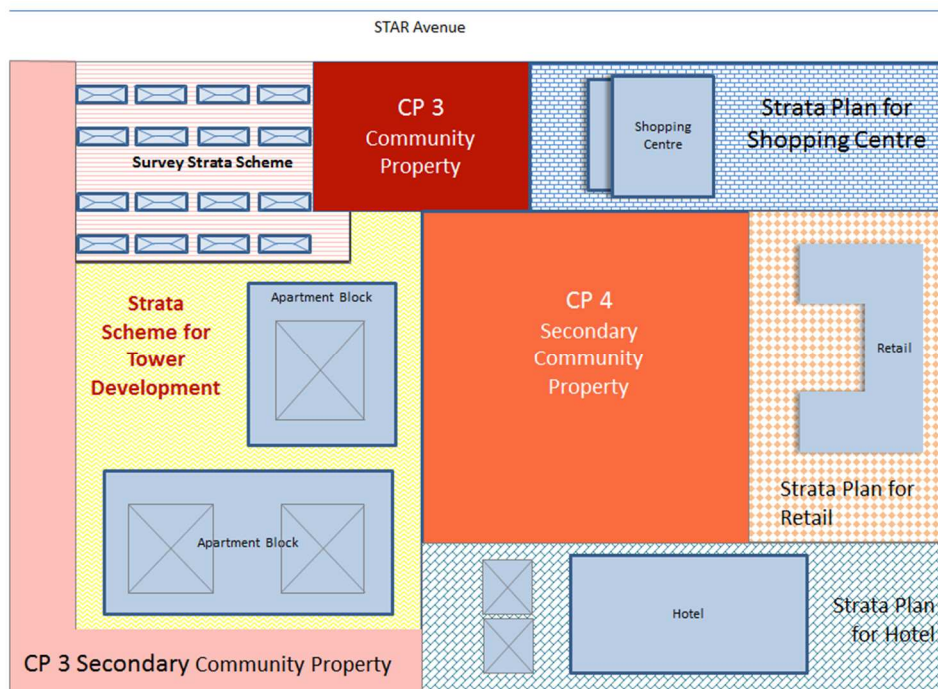
10. STRATA TITLE REFORM

- **Landgate** is driving the Strata Reform Process which in my and many other valuers opinions, there needs to be some significant changes and reviews of the Strata Titles Act, especially from a valuation perspective.
- One of the main focuses is the introduction of **Community Title Schemes**. These are effectively Strata Schemes within strata schemes and are being implemented as an appropriate method for staging construction of a development project.
- The identified benefits of a Community Title Scheme is
 - Longer Term development framework
 - Mixing Strata and Survey Strata in one development
 - Multiple Schemes to share common facilities or infrastructure (Mounts Bay Village)
 - Simplify mixing uses (Residential with commercial with retail and a hotel)
 - Development Statements which sets out developer covenants
 - Provide an indication of likely facilities in a staged development.

11. COMMUNITY TITLE SCHEMES

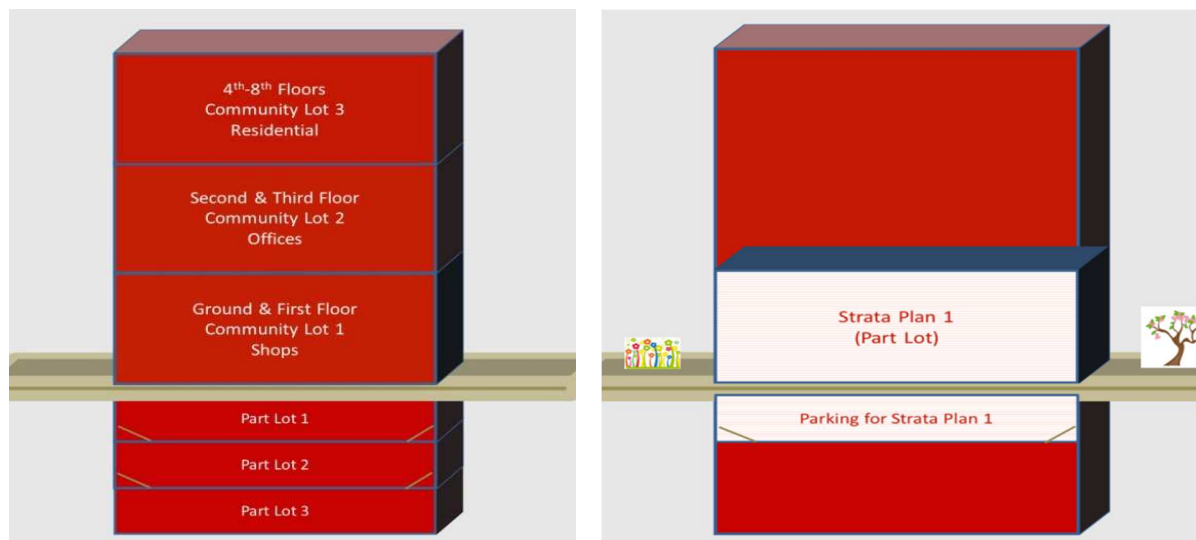
Example of a complex Community Title Scheme

- Residential LHS
- Survey Strata top left
- Strata Scheme for 3 tower residential development
- Commercial RHS
- Strata Plan for Shopping Centre top right
- Retail Strata middle right hand side
- Strata Hotel bottom right hand side
- Common property in Red for whole development
- Common property in Orange for commercial only (possibly a car park)



Example of a multi level mixed use complex Community Title Scheme

- Parent Lot 1 - Ground & First floors retail
- Parent Lot 2 - 2nd and 3rd floor offices
- Parent Lot 3 – 4th to 8th floors Residential
- Basement parking for each of the parent lots.
- Would work well for the Claremont Quarter Development – Retail & Residential
 - Residential should not have to pay for common area cleaning for retail.
 - Separate common area power and water metres etc.



12. CONCLUSION

Strata Titles is a very complex part of the property industry and is often taken for granted not only by consumer but often by property professionals such as real estate agents and valuers.

It is important to have a good understanding of the Strata Titles Act of 1985 and be mindful of any legislative changes that may occur.

It is anticipated the current reform process (if adopted by parliament) should come into effect by early 2017.

**Information for this presentation has been referenced from the Strata Titles Act 1985 and Landgate's Strata Reform documentation.*