



STRATA

IN CONVERSATION

SYDNEY 2013

KELLY+PARTNERS
CHARTERED ACCOUNTANTS

ARIA

Conversations of interest

During the course of 2013, Brett Kelly, CEO and founder of Kelly+Partners, initiated a series of four Strata In Conversation lunches at Aria Restaurant, on Sydney Harbour. This initiative was designed to bring together leading industry figures in a relaxed setting with a highly engaging 'interview' format.

Placed within the context of the past 30 years and likely changes arising from the upcoming legislative amendments, Brett's interviews covered important topics:

- Session 1: **Reforms and Predictions** with Anthony Roberts
- Session 2: **Strata, a Growth Industry** with Greg Haywood & David Ferguson
- Session 3: **Finance and Insurance** with David Hampton & Andrew Taylor
- Session 4: **Generation Next** with Chris Duggan & Daniel Linders

Kelly+Partners are fully committed to the industry and have been so for in excess of 25 years through our constituent firms. Our specialist Strata Division is dedicated to the audit of strata plans and other bodies corporate, ranging from traditional small strata plans through to the largest schemes and complex developments. Furthermore, our firm is a member of Strata Community Australia.

Due to the overwhelming positive response from all who attended we will continue this informative series in 2014.

KELLY+PARTNERS
CHARTERED ACCOUNTANTS



Session I: Reforms and Predictions

Yes, Minister

On Monday 8 April 2013, Kelly+Partners held the first Strata In Conversation lunch at Aria Restaurant overlooking Sydney Harbour. It was appropriate to have the NSW Fair Trading Minister, Anthony Roberts as our first guest speaker.

Anthony Roberts is not just passionate about strata, he is a lot owner himself. He understands the frustrations and the desperate need for reform. He agrees wholeheartedly that these reforms should have taken place 15 to 20 years ago.

When Brett asked the Minister when we could expect an outcome to the recent consultation, Minister Roberts said they were hoping to bring legislation to the parliament early 2014.

Minister Roberts made it very clear that communication is going to play a huge role in moving forward. The Minister and his team at the Department of Fair Trading are making the strata reforms the jewel in their crown and they want lot owners to start communicating again.

Anthony Roberts: The buildings are bigger, the communities much larger. Where we have more and more people now the only interaction they want with anyone is very little.

They park their cars downstairs — hopefully someone hasn't parked in their spot — they get in the lift, they go up and they go into their unit ... and that is it.

BK: On the termination of strata schemes, what is your view?

AR: Termination has always been the elephant in the room. I mean how do we deal with ageing strata schemes? How do we deal with issues where you have older people who quite seriously cannot afford to maintain or remain in their strata schemes because they are past their used by date. So that's why we kicked the ball, to make sure that we bring in the ability for strata schemes fairly and openly and transparently to be able to look at themselves and again make those decisions whether or not to be part of the renewal process.



BK: Is it going to be 80 percent? 75 percent?

AR: There seems to be an overwhelming move and positioning to about 75 percent.

... as you know you can terminate schemes now. You have got to have 100 percent. As there have been some 284, thereabouts, schemes terminated, anyone who tries to tell me that everyone of those schemes was legitimately 100 percent, that everyone loved the idea of terminating, is kidding themselves.

However, the issue is that there is no check or balance in there to protect an individual from intimidation or someone that, for example, doesn't have the education or the skills as someone else does.

So what we are keen to do is make sure there are steps in place, not only just to make this easier for people who have made that decision to terminate their strata schemes, but to ensure that there is a level of transparency and openness all the way through and a level of protection there for individuals while that scheme is been terminated.

■





Session 2: Strata – A Growth Industry

From little things, big things grow



At this lunch Brett Kelly interviewed David Ferguson and Greg Haywood. David Ferguson is the Managing Director of Strata Plus and for the last four years the President of Strata Community Australia (NSW) (SCA). Greg Haywood is the chief executive officer of the largest strata company in Australia, BCS, and he is also the newly elected president of SCA (NSW).

Brett opened with a question specific to lot owners and executive committees.

Brett Kelly: How would a consumer differentiate the different levels of strata management services being provided by the market? And where does the SCA accreditation fit into this?

David Ferguson: It is interesting Brett, in the last 20-30 years strata has grown up. We have moved from the 'walk up' to complex strata schemes with multi-million dollar budgets. It is pretty clear that the skill sets required to manage those two different entities are entirely different. Top strata managers could hold down jobs as CEOs without question. And you know, a lot of them are paid in that range.

So, how do we as an industry react to a transforming environment and differentiate the services we provide? It's through an accreditation pathway. Controlled and with the recognition bestowed on members by their peers. This accreditation system will enable consumers to differentiate between the types of services offered on the market.

BK: And Greg, in your business, obviously it's an enormous company across a whole lot of size and complexity points, but also geographically. How do you guys go to market, you know, to a sector that's so varied?

Greg Haywood: Basically a lot of our branches are very much regionalised.

Obviously the main core is the Sydney region, Gold Coast, Brisbane and Melbourne. But when you start to get out into the other areas, we actually still think of ourselves as a regional player in that particular market.



And what we do with those regional offices is bring in the back office function. In other words we are looking for synergy. We also put in technologies as well to actually enhance what we can do.

So basically we have business as usual in those regional areas just so that we can get consistency across a whole range of businesses. We vary from some regions as being quite small, like a mum and dad operation with say 5,000 lots and then we move up to 40,000 lots. That's how it works.

BK: Do you think the consumer cares?

Do you think consumers are educated enough to differentiate between strata management service levels? In our industry in accounting, everyone is an accountant apparently. Obviously in the medical field there is a clear understanding between the difference of a GP and a brain surgeon, you hope right? But in your industry and ours, you know, everyone is a strata manager.

How do you better educate the consumer and is it just entirely price driven?

GH: I think that the answer is they do see a strata manager as being a strata manager. I mean we have undertaken a number of customer surveys both our own customers and also customers of some of our competitors. And basically they see that strata management side as just a given and it really gets back to the other services that you can provide where you can set yourselves apart from the pack you might say.

So it's critical to have a look at what you are delivering as a total package and that, because as you said, the basic stuff, everyone does it. It's a bit like you said about the accountant. So it's a matter of what you can bring to the table? And in other words what can you do to add value for the client that they don't already get or can't be offered?

DF: The question is, is a strata manager providing compliance or are they providing advice? Compliance is the base level of strata management. So I suppose part of the accreditation system is to provide a differentiator between those levels. But can the consumer differentiate? Perhaps only just now. At the pointy end of the market people are realising the difference, despite everybody's websites tell you they are going to do the same thing.

"And there is a lot of referral business that separates companies. But, I think we can probably do a bit better to actually put some rigour around it.

■





Session 3: Finance and Insurance

Is “commission” a dirty word?

One of the strata industry’s most controversial issues is the commissions that strata managers receive from placing insurance policies on behalf of Owners Corporations. Insurance is compulsory for strata schemes, and strata managers are paid an average of 15% in commissions. The Owners Corporation Network wants commissions banned, describing them as ‘kickbacks’, but the insurance industry and strata managers are insistent that they are justified. The NSW Department of Fair Trading is grappling with the vexed issue as part of sweeping new laws soon to be debated in Parliament.

Guests for this session were David Hampton, General Manager of CHU Underwriting, and Andrew Taylor, Divisional Director of Macquarie Bank’s Relationship Banking.

Brett Kelly: Andrew, I am interested to know what the impact of a proposed change to insurance commissions might be on your strata manager portfolio?

Andrew Taylor: Through benchmarking reports and our knowledge of the financial position of strata managers we have a good understanding across our entire client base as to what percentage of their profitability is derived from commissions on insurance. The average would be 12% to 18% of revenue.

BK: This is interesting, as an accountant. So 15% of revenue in your view. What percentage of profits?

AT: The average profit margin of a strata business is about 25 to 30%.

BK: So what does a portfolio look like if 15 of the 25% disappears? Have you done stress testing on that?



AT: There are some businesses out there that, if you take that commission away, would actually not be profitable anymore. There are others where their profitability would decline substantially. So, clearly the strata managers and the industry need a plan as to how they are going to replace that income.

David Hampton: We know commission is important. It's been a big issue for the industry — the hottest topic at the moment. And obviously it's about purse strings; it's about perceptions, governance, regulatory; it's about industry bodies ... Our view is pretty simple. CHU supports the continued payments of commissions. We think it's thoroughly defensible. Our view is that we believe commissions are an official way of selling and servicing an insurance product. And it's probably a reasonable proxy of the value that a strata manager brings to the table in relation to insurance.

The word 'secret' seems to appear in the same sentence as the word commission, so we take offence to that because it's not the way our model is supposed to work. Some people think it's just a simple five minute exchange in an OC meeting and you (strata managers) then receive a wad of cash. But if you have to go through a major loss, you know all about the time that you spend ...

Our position is simple. If you take away the incentive for a strata manager to be involved in that insurance decision then you take away a lot of skill and expertise and you destroy the go-to person. Who is that going to be in the future?

We all know that you guys (strata managers) deal with these type of issues every day. You deal with committees. Decisions and actions taken by committees is a very difficult thing. If all of a sudden a strata manager is not involved in that insurance decision, and the claims

process, who is going to deal with the committee? It could be a committee of insurers or a committee of brokers. And my experience has been that where you get those myriad of relationships, nothing happens. Nothing.

So, you know, our view is quite simple. We obviously will support the continual relation of the status quo.

BK: If there is a change (to the legislation) will you guys continue to pay your amounts but change the way you pay them?

DH: Well this is the challenge for the legislator, isn't it? If you are going to close the door, how do you consistently close all the doors? Because if you are not careful, and we have seen other industries ... financial planning, life insurance ... struggle with it for 30 years. You know what happens now if you get a financial plan? It's a 100 page document that has one page of advice. You know what the rest is? Disclaimers and blah, blah, blah. Has that added any value to the industry? No.

You know what ... it still costs 2% per annum to run investment trusts in this country after 40 years of regulation, even with all the automation and so on and so forth. So be careful what you wish for because you might get it and it might cost you more.

■



Session 4: Generation Next

The future of the strata industry

At the fourth Strata in Conversation luncheon, Brett Kelly quizzed Chris Duggan, New Business Director of Bright & Duggan, and Daniel Linders, Group Managing Director of Strata Choice, about the evolution of strata and what the future holds.

Brett Kelly: The internet is radically changing most businesses. How is E-technology changing the strata industry?

Chris Duggan: It's interesting because everyone looks at the younger generation and thinks we are going to be more astute about E-strategies and the like. That's a fairly naïve assumption because the uptake of technology across both our customer base and also our employees and people in business is fairly universal.

There is obviously a desire for the younger generations to almost exclusively correspond via E-communications and I think what we will see next year, as has been flagged by the state government, is a facilitation of much more E-communications. Whether that be online representation at meetings or the delivery of documentation through the mediums. And what it's going to mean is a very quick catch up period because I don't think companies have appropriately invested in the infrastructure behind being able to appropriately push information out in a timely and expected manner to our customers. Consumers will be able to compare the technological performance of their strata company with that of their bank, and regular activities such as booking a hotel.

The E-communications side of the strata industry at the moment is sorely lacking due to lack of innovation and lack of investment. But we are seeing companies changing. Many have an extensive E-collaboration strategy to try and get ahead of that game. Embracing technology will certainly become very important as the expectation from our customers grow.

Daniel Linders: So true. Take correspondence to our lot owners, as an example. An annual general meeting package can run to 40 pages. So, firstly, you have got to get that into someone's mail box successfully without it being rejected. And then you have to get owners to come along to the meetings. So you have got to have people savvy on using iPads or any



other type of means to scribble on them, write notes on them etc. It's not just getting the technology right and getting the information out there; it's also the useability sense. I have just started using my iPad in meetings, and it's tough getting used to it.

Handwriting is much quicker, and much easier. So maybe it's not so much the industry getting ready for technology it's the rest of the world as well.

BK: Technology is great for things like online surveys, and links where people can go and self-serve. But the banking analogy is probably a good place to look in terms of how customers have changed over time.

To what extent do you think social media is being embraced across the strata industry, and is it making a significant impact for managers or lot owners?

DL: I don't actually have an example of a property that uses social media well. We know of a couple of properties that have Facebook pages to communicate to customers, and they do that successfully.

Nothing too great. But we toyed with the idea of having some type of noticeboard or feed or something on our website, so that owners could come on and keep in communication. The hurdle that we reached was that, if you use another medium like Facebook, you have their privacy policies and their risk policies relating to defamation. When you start to bring that in house, all of a sudden you become the publisher and you have issues over that. So you get the moderation advantages, having your own proprietary software, except for Facebook. But with Facebook you get the useability protection.

CD: We deal with a number of buildings with Facebook or with other building management software which, with or without a building manager, gives them access to a number of communication portals.

Almost exclusively they have been driven by a 'champion' on the building, and I think it's important that as strata managers we don't become the web masters and the software integrators of all of those buildings. So it's a very fine line between what buildings want and the actual practical implementation of someone moderating these forums.

BK: One interesting thing that I've heard is that the fastest growing group of Facebook users is people over 50. So the assumption that Facebook is the domain of 20-year-olds is misguided. There are 900 million, or more, people using Facebook.

What is your view of cloud-based applications, and how might they change the strata business?

DL: I think it's a broader issue than just for our industry; it's how cloud is affecting the world. One area where we have seen it impact is small start-ups. It's much cheaper to get online quickly. They don't have to buy servers and infrastructure anymore. They can make application to Microsoft; I think it costs \$12 per month to have their suite of products and you can get online. A couple of data software companies now provide that cloud base as well. So, basically, you just need an internet connection and you are online and ready to go.

CD: I think our industry used to be the domain of those who invested quite heavily in their software packages where they could provide more bolt-on functionality. But now with cloud based applications you get a comparative service accessible anywhere in the world, managed remotely, providing the consumers with the same suite of products. So it changes the landscape of what competition is and how dynamic companies can be. Cloud application will reduce the cost pressures on businesses, and obviously the lighter and more nimble you can be the more effectively you can compete.

BK: Can you see offshore strata managers working, using cloud based systems from overseas locations; the old call centre approach?

CD: As long as you have state-based licensing regimes and the Property, Stock and Business Agents Act you are still going to have to have an onshore presence. But we will see more back-of-house, more resourcing, more outsourcing — particularly as the industry continues to face increasing costs pressures. You will have to be looking at all of these options.

BK: Over the past 30 years the strata management business has shifted from a cottage industry to a profession, and there is a changing of the guard currently underway in many respects from baby boomers to the 'next generation'. Do you see significant differences between the management style of the older generation and of the newer generation?

CD: When you get different generations you get inter-generational tensions, whether they be within a business or within the industry. People take differing views of where the industry is going, and where revenue is coming from. They are viewing it through the prism of where they are at within their particular business cycle.

DL: Agreed. Older generations, say baby boomers, may be at middle or tail end of their careers. They may be a little bit more adverse to debt, or additional risk. Whereas this is not so much the case for new generations. Both Chris and I come from a family business. Our industry is unusual in the sense that it has such a high number of intergenerational parties and influences, whether they are active participants or external interested parties.

BK: So what are the challenges for a family business?

DL: I think succession. It's something that you should take quite seriously and you should have well documented. It makes everybody a lot clearer and able to be 'on the same page'. The major thing for our company and me personally would be the different levels of risk one is open to take at certain periods of time because people are in different places in their lives. We have regular meetings in a proper format and plans that look years ahead. And, also, exit and financial responsibility. Everything is agreed and documented. It's important to get an independent person such as an accountant to prepare these documents.

CD: Yes. It's about making sure you have that discussion about time lines and horizons. Gain any stakeholder input because there are a number of factors of influence, apart from the people involved and what they may want to do. There are other family issues; there are other stakeholders within businesses. That's not to say that those plans can't change, and often they do due to extraneous circumstances. As long as you have a 'backbone' or an understanding of how it is to work.

What we are going to see will be tension between who has a different appetite for debt, for example, and who has a longer term horizon? That's going to create a need for the documentation of those strategies so that when opportunities arise you can act nimbly. Without those regimes you are likely to be caught out and have to make decisions on the run which, inevitably, don't work out.

BK: We (Kelly+Partners) deal with a lot of private businesses and very few have a written succession plan. But you can't maximise the value of your business, nor the strategic options, if you are trying to do it on the hop. It generally takes about two years to effectively sell a business.

Daniel, what are your thoughts about a push towards more age-specific communities?

DL: I think this is a dangerous proposition. When you put people together from the same economic class or the same sex or the same age bracket it leads them into a place where you get the group mentality thing happening. When you have a mixture of demographics it broadens opinions and tempers down conflict. Let's use an example of schoolies. When they all get into an apartment building it's a disaster.

So you wouldn't want to have that in a strata scheme. Going to the other end of the scale with more mature aged tenants or owner occupiers ... now that could be a good thing if the facilities and the building has been created to serve that purpose. Certainly some developments are doing this. But I still believe you need a bit of mixture in each property.



BK: Love thy neighbour has been a key tenant of our society. But back when that was written no one lived in strata communities. Yours thoughts Chris?

CD: I think you need to change “love thy neighbour” to just “respect thy neighbour”. It’s naive to think that people are all going to love each other, and I think that mindset usually causes a lot of tension because it presupposes that you are all going to agree on something.

But if you have the core tenant of respect within a building and you respect the other person’s view, while you may respectfully disagree certainly it goes a long way to dealing with the issues. But that inter-generational conflict ... we see it every day. You take any standard strata scheme in Sydney and you get people with different horizons around their financial outcomes. Younger generations who want to more immediately come in, make renovations to their property — sometimes they don’t comply with the by-laws — to capitalise on their investment and then move on. Then you have older people who take a longer term view of their asset. So those tensions exist every day.

If you have that core tenant of respect you can deal with a lot of issues. But I think we are going to see increasingly that the inter-generational conflict is something that requires strata management involvement as part of broader mediation services to hopefully deliver outcomes that are acceptable.

■



STRATA IN CONVERSATION | SYDNEY 2013

Produced by Kelly+Partners Chartered Accountants | Strata Division
Thank you to ARIA Restaurant for the venue and event catering
Design: Reno Design | KP-395
Photography: Living Image | Simon Carroll



Kelly+Partners provide
value-added, on-time services,
nationally to Strata Managers.

Kelly+Partners is a leading accounting and business advisory practice. Clients include strata managers, commercial and residential property managers, real estate agencies, investors, developers, construction companies, commercial and residential builders.

We share the passion and commitment required for Strata Managers to successfully perform in this dynamic industry.

Let's get started.
Phone 02 9923 0800
or email our specialists to set
up an appointment.

kellypartners.com.au



PETER DAWKINS

Senior Client Director
peterd@kellypartners.com.au



REX HOEBEN

Senior Client Director
rex@kellypartners.com.au

KELLY+PARTNERS
CHARTERED ACCOUNTANTS