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INSURANCE IS COMPULSORY, BUT WHAT HAPPENS IF THE INSURER DECLINES TO INSURE YOUR BUILDING?

We have recently taken over a commercial warehouse project that desperately needed our help. While the STMA requires that the body corporate insures all the buildings as part of the levy, in this building there was no body corporate policy and each individual owner was insuring themselves separately. The problem stems mainly from what tenants are doing inside each unit, which is not under control of the body corporate or its managers. Typical of the reason for the insurers not wanting to insure the body corporate was because some of the owners were stacking over 3.5 metres high above which height sprinklers are required. Other reasons given were that some tenants were storing gas in an unacceptable way, that isles were blocks, especially those that lead to fire fighting equipment, and although every unit had at some stage obtained a COC for the electricity installation, by the time of the insurance inspection these units, by their tenants actions, were no longer valid.

As you can imagine it is near impossible for the manging agents or body corporate to enforce all these requirements and they have to rely on individual owners to inspect their tenants premises – but many of these owners are not residing in town.

We have been talking to our broker on how to overcome this problem and it seems that it may be possible to start the corporate policy on a unit by unit basis as they are found to be compliant. It will mean that those owners who are not compliant will not be insured but will still have to contribute to the insurance policy for those who are compliant. In practise it is near impossible to have all units fully compliant on one day, especially in such a large complex of industrial warehouse type properties.

It would be interesting to know what experience other similar complexes had.

The Landlord

Newsletter for Sectional Title Trustees & Landlords



Sept 2020

TAKE CARE NOT TO REDUCE BUDGETS

Times are tough and there is a temptation to manipulate the budget of body corporate to reduce the monthly levies. The budget is a plan to pay the costs of running your scheme for the next financial year and to put away long term maintenance funds in terms of your 10 year plan.

Just because some owners hare having a hard time paying their levies is not a reason to try to cut costs. While it is possible to extend some costs such as leaving the painting for another two years, one must be realistic with the budget and make provision of all the expected costs for the coming financial year. Well run schemes with substantial savings obviously have an easier time of it, but that was because of prudent budgeting and credit control in the past.

Talk Shop

By Platinum Global

HOW TO MANAGE SMALL SCHEMES

As we have mentioned it really does not pay for a managing agent to manage a scheme under about 40 units. So, what do small schemes do, especially schemes with 10 or fewer units?

In my opinion they should really run themselves perhaps under that guidance of a consulting managing agent. Firstly, they need to have a copy of the registered stitle plans and check that nothing has been added without appearing on them. Then they need a list of the registered owners and their correct names. A copy of the registered rules is vital, not the ones that have been made up by some previous trustees!

Next, they need a proper accounting system. A basic program is fine and not expensive. Somebody with a modicum of bookkeeping experience should be able to run them. A month by month, item by item, levy needs to be approved at a meeting of the owners from which the levy is calculated using the PQ schedule on the sectional title plans. The same program should be able to create a budget to actual report at the end of each month to confirm that nothing is being overspent.

The Trustees need to register the scheme with CSOS, which is a relatively easy exercise and then register the trustees with them too. They should really register with SARS for Income Tax but tax is only payable if your non-levy income exceeds R50,000 – most body corporates don't bother.

You will need to have a 10 year reserve plan where you add an extra saving towards long term maintenance costs such as painting, roof waterproofing and the like.

You need to hold the AGM within four months of the year end and need the Annual Audit to send out with the notice so need to appoint a bookkeeper and auditor. More meetings are not compulsory, but you do need to keep minutes of other meetings that you hold. Trustees need to take action if one owner does not pay and generally look after the outside of the buildings.

CHOOSING TRUSTEES?

It is sometimes exceedingly difficult to get anyone to be a trustee! For any scheme you need a minimum of two people but depending on the size of the scheme you may want of have a couple more. Having an odd number can help as it makes it easier to get a quorum (more than 50%). At least half of the trustees must be owners or spouses of owners. Perhaps it is the thought of having to do unpaid work that puts people off.

While the Trustees are officially in charge, a good managing agent that is proactive in the way that they work, can result in very little work needing to be done by the Trustees. You can pay professional trustees, and this is often done with golf courses, marinas, and game parks.

But trustees must want to be there and participate. It does not help if a trustee shows no interest and does not attend meetings.

Trustees should not be there to force their own agendas or to make money out of the Body Corporate. Remember a Trustee may not offer his or his companies services as a builder or insurance broker for example. I am not sure that I always agree as some trustees are prepared to help the body corporate with low cost solutions, but that is what the act say.

A Trustee that you nominate should accept the nomination in writing and have a positive can do attitude. They should really want to help the body corporate to do a better job and not become a trustee that interferes in what is working well, just to show who is boss. A creative trustee can be a real asset to the team, but a negative one can cause real friction.

SELLING OFF GROUND

There is a huge difference from one body corporate to another. Not only do they vary in design and number of units but also in building style from flats to townhouses, to country estates and commercial and industrial parks.

Many at designed to maximise density and get as many units on the site as possible whereas others are incredibly open and isolated design. I recall visiting a scheme at Warmbaths, where each unit was out of sight of the next and the buck visited for their morning biscuits but casually wandering into the unit.

Occasionally schemes have excess ground and can sell of a portion of this unused ground. This must be done with care and would need knowledgeable legal advice. This would be one of the few occasions when money could be paid out to owners as it would be a gain by the body corporate of a capital nature. Subject to holding the proper meetings for approval it could be possible to pay out this money on a prorate basis per PQ. Alternatively, the funds of the body corporate just increase or each owner's levy could be credited in the same way.

When contemplating the sale of a piece of ground, it would be important to get at least two valuations by Professional Valuers to ensure that a proper price was being asked. It would also be wise to ensure that the buik, and coverage were also sufficient to allow for the subdivision and sale.

Care should be taken not to allow any unexpected consequences. An example of this being that the subdivision still needs access across the original ground which could cause a security problem.

THE MARKET

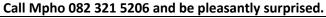


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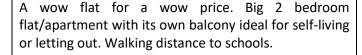
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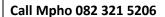
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DON'T BRING YOUR PETS UNTIL YOU HAVE WRITTEN PERMISSION TO DO SO!

The STMA basically states that you need permission of the Trustees to bring your animals into your unit in a scheme. Owners can decide as a body what their rules are, but the act says that the rules must be fair. For example, a ground floor flat with a large garden in a high rise building verses the remainder of the building upstairs. While it may be seen as being fair not to allow dogs in upstairs units, would it still be fair not to allow a smallish dog in the ground floor units with a large garden? Over the years of managing buildings, cats have always been a problem because the go into other people's gardens and unit and scratch up flower beds and steal food. But what about goldfish? What about caged birds? Each application must be judged on its merits.

The biggest problem are tenants who just rock up with their Dobermans and claim that they have been given the OK by their letting agent or owner. What to do then. Personally, I believe the managing agents/Trustees must just follow the rules and ask them to remove their pets to the kennels until such time as they have made an official application and been approved. And this cannot be done on the spur of the moment. It needs to go to the next Trustees meeting and be recorded. Only then can written permission be given. Everyone needs to know that the pet rules will be enforced against both owners and tenants, otherwise it just becomes a free for all. Pets are a privilege and if they become a nuisance then they should be asked to go.

ROTATING METERS V ELECTRONIC METERS (ELECTRICAL)

Rotating meters are the old fashion meters that read the number of units consumed. Electronic meters are their modern replacement. Not only are they more accurate but can be programmed as prepaid or account meters and read online. Importantly they can be programmed to duplicate the suppliers time of use tariffs which are becoming ever more popular. This means that each user only pays for what electricity they have used, at the time and rate for when it was used. Usually there high, standard, and low peaks on any one day plus lower tariffs at weekends and public holidays. To discourage excessive use energy suppliers identify the one time in the month when the highest possible amount of electricity is used and charge the building what is called a Peak Demand Charge. These electronic meters can pro-rate this fee amongst those that were using electricity at that time. It is only with these electronic meters that you can prevent cross subsidisation by low energy users of high energy users by charging the correct tariffs. Rotating meters only register the number of electricity units used but not when. So, a low tariff time user will pay the same rate as a high tariff time user and will actually be paying part of the high users account. This means that there is no overall incentive to save or change the users use pattern.

DON'T LET SOME OWNERS OR TENANT BECOME A FINANCIAL BURDEN ON OTHERS.

Countrywide the norm in the past has been to have around 20 to 25% unpaid levies. I would imagine that the situation is far worse now as the result of the lockdown. Although Platinum Global has seen a definite increase in the number of outstanding levies, the amounts/numbers with the buildings is still far less that this figure and, in many cases, close to or actually at zero! How can this be achieved? Firstly, accounts must be kept up to date every month so that the correct accounts are sent out to each owner and tenant each month. Then credit control must be firm and fair and start early in the month around the 7th latest. Your managing agents should be given clear instructions about credit so that they can continue with the credit control. Usually they are instructed to send letters of demand to non-payers, and to hand over anyone who is more that two months in arrears.

While it is illegal to disconnect water and electricity without a court order which is impractical, immediately report any owner or tenant to CSOS who will in due course instruct them to pay – which is a court order!

Quick action on arrears will result in a far better financial situation for the body corporate and stop some owners taking advantage of poor financial management at the expense of those who do pay.

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Kind Regards,

Dale Anderson

Email Mike Spencer <u>mike@platinumglobal.co.za</u> if you would like more information on investment properties in the United Kingdom.