Help Our Scheme – Property Complexity

What then is Property Complexity?

These are the risks that are inherently in a Community Scheme by virtue of:

- its ownership mix – resident, non-resident, individual versus entity owned, participative/versus not interested, problem/non-problem owners
- developer involvement and interest - unsold units or properties/undeveloped areas
- its physical locality – area - urban/coastal/bushveld, slopes and drainage
- the prevailing climate and exposure to weather and natural risks
- the terrain it is built on - rocky, sea-sand, clay and vulnerability to subsidence/ dampness/ flooding
- overall size/extent of the Community Scheme/its physical property
- extent and nature of the physical infrastructure – construction material type, number of buildings, type of structures
- the inherent total value of the assets of the Community Scheme
- the number of units
- the number of owners
- the geographic area and suburb it is situated in, including general road access
- its design and inherent design defects/latent design defects – flat roofs, poor draining balconies, box gutters, extensive railings, wooden windows, inadequate/lack of guttering, poor storm water drainage, lack of comprehensive plans showing electrical wiring/piping/drainage details
- the quality of construction materials used
- its construction type e.g. brick/concrete, plaster/coatings, thatch roofs, steel/glass, wooden frames, metal/steel railings, extensive use of tiles in passages/walkways
- latent construction defects e.g. defective materials, design faults, poor workmanship
- the age of the infrastructure and assets – level of wear and tear
- the extent of the Common Property – walls, number of gates, internal road network, access controls
- facilities provided e.g. swimming pool, play-zones, jungle gyms, skateboard park, restaurants, gyms/fitness/wellness centres, braai areas, car wash, laundry, frail/nurse care, library, bar, snooker/pool tables, golf course, dams, tennis/squash courts, recycling area, waste management, pest control, shopping, entertainment, communal dining-room, transport, solar infrastructure
- extent of undeveloped areas
- maturity of the Community Scheme
- the size of its revenue base and revenue dynamics – cash resources to hand
- the provision of power and water – reliance on boreholes/dams, solar panels, batteries or inverters
- the impact of neighbouring properties or Community Schemes – drainage, adjoining walls

While there is nothing that Trustees/Directors or Estate Management can do about many of these aspects, it remains very important that the inherent risks as a result of these are understood, and in particular, their potential financial impact, the control requirements and maintenance requirements/demands, the impact and extent of these on the Community Scheme going forward. In cases where certain facilities or services are becoming an extensive burden and drain on a Community Scheme, their continued provision might need to be curtailed or discontinued.

Where the Community Scheme has high risk facilities e.g. swimming pool, jungle gyms, climbing equipment, gym apparatus etc. specific safety and monitoring controls must be put in place. The mere display of "no responsibility/use at own risk" notices are insufficient, and specific safety measures such as code locks, locked gates, restricted hours of use, lighting and physical oversight must be put in place.

Specifics of a Community Scheme, such as whether it is spread over a wide area such as an eco-estate or whether it comprises a high-rise apartment with a lift infrastructure, will create varying degrees of complexity and require a different focus. The greater the physical extent, the greater the fencing/walling and security/lighting/monitoring infrastructure required. The higher the number of entrance and exit points, the greater the complexity to manage.

The greater the size and value of the assets under management and the more facilities provided, the more complex and demanding both operationally and financially it will be to run the Community Scheme.

An aspect that can have a major bearing on a Community Scheme is the state of and situation of bordering properties. This can range from long established Community Schemes, freehold properties, vacant land and new developments under construction. The state and condition of adjoining properties and the level of management of them, can have a material impact on a Community Scheme. This extends from security risks, problem trees, alien vegetation, noise, dilapidated structures and collapsing adjoining walls. A specific area of risk are new developments which fail to comply with planning and building approval conditions and who deliberately take short cuts in key areas such as water drainage, security controls and measures and the quality of perimeter/adjoining walls. The impact of storm waters can have very big impacts on adjoining properties if adequate drainage has not been made or planned for. In some instances these issues can be resolved amicably, but in others extensive legal costs might need to be incurred.

State of Infrastructure, Property, Facilities and Buildings

Wear and tear and ageing of infrastructure is a reality and function of time, weathering, maturity and usage of Community Scheme assets and infrastructure. Most Community Schemes have inherent latent and design "defects" which in time will impact on the costs of upkeep and maintenance. These can be poor foundations, bad roof design, slopes and angles, type of materials used, lack of stormwater drainage, quality of workmanship, use of inferior quality building materials, excess exposure of areas to the weather, no access to piping/wiring/electrics, lack of availability of detailed plans etc. At some stage it becomes financially prudent to replace wooden window frames, wooden garage doors or steel/metal railings etc. with more weather resistant materials such as aluminium or stainless steel.

Persistent damp is singularly one of the biggest factors that can impact the infrastructure of a Community Scheme. The treatment of damp needs a specific focus as over time having to undertake the repair of this damage can have a massive financial impact on a Community Scheme.

It needs to be borne in mind that insurance does not cover the impact of dampness, land subsidence and wear and tear on infrastructure from weathering incurred over time - insurance being confined to a single event or occurrence.

All infrastructure will at some stage require extensive maintenance, refurbishment, modernisation and replacement. There will also always be unexpected expenditure or emergency expenditure required due to greater than expected wear and tear, decay or weathering. The extent to which this needs to be funded by the Community Scheme is a critical element. Reserves need to be built to ensure that this expenditure can be undertaken. The statutory reserve requirements aligned to the 10-year maintenance repair and replacement plan (MRRP), may well still be inadequate to meet these costs. It is therefore always important to retain additional reserves for this element of expenditure.

Expansion projects will also require funding and the building up of reserves for this is essential. Solar energy and related power projects are a specific area where Community Schemes looking for long term cost benefits, will be required to undertake fairly considerable capital expenditure in the short term. The maintenance and management of these will also require on-going focus.

The greater the extent of communal facilities provided by a Community Scheme, the greater the impact on the Community Scheme from a financial, management and maintenance upkeep perspective. These can range from low impact/easy to manage facilities, to being fairly complicated ones requiring specialised equipment, support and expertise e.g. frail/nurse care, restaurant management, laundry services, fitness/gym facilities, pool complex, squash court, dams etc.

The revenue level of a Community Scheme (levy/contributions/sales of services/ancillary income) will dictate the extent to which a scheme can generate cash to fund expenditure and maintain its infrastructure. Where there is a reliance on very high income/revenue levels to cover fixed costs, Community Schemes will be most vulnerable to changes impacting revenue/income collection and cash generation.

The setting of levies needs to factor in the meeting of minimum regulatory reserve requirements (MRRP) and the actual costs of maintaining, repairing and replacing the infrastructure of the Community Scheme.

Where a scheme becomes reliant on ancillary income, e.g. from frail care facility usage, restaurant usage, laundry usage, hire of facilities, energy saving revenues, use of recreational facilities, rounds of golf etc. for the funding of its core operational expenditure and maintenance upkeep, it needs to be sure that these revenues are sustainable otherwise it will run into trouble. The on-going cross subsidisation of loss-making facilities can have a material adverse impact on the financial position of a Community Scheme over time, and in most cases is not sustainable. The upkeep of facilities infrastructure in order to generate income, remains the responsibility of the Community Scheme and can be a drain on reserves.

The current state and condition of the buildings, property and other infrastructure of the Community Scheme, e.g. general residential buildings, window and door frames, tiling in passages, boundary walls, parking areas, garaging, shaded parking, swimming pool, communal facilities, guardhouse, gates, electric fences, solar infrastructure, boreholes/pumps, clubhouses, roads etc. need to be continually assessed and pro-actively monitored. Areas and assets subject to high usage such as passages/pathways, internal roads, communal drainage, dustbin/waste areas, lawnmowers, gates, gate motors, booms, access control systems and solar infrastructure will need constant maintenance and up-keep or even replacement.

If a Community Scheme is located in an area that is impacted by crime or unrest, it is essential that there is a big focus on security infrastructure (CCTV/cameras/beams/ patrols) and related access control and monitoring systems. Security requires on-going investment and is an area of essential expenditure that can't be ignored.

Where Community Schemes install back-up power infrastructure (generators/solar), boreholes/water storage infrastructure, CCTV/Cameras/Access control infrastructure, communal Fibre/Satellite installations, the maintenance and running of these need to be funded and maintained on an on-going basis.

Climate and Natural Risks

Another significant potential impact on a Community Scheme's infrastructure, buildings and grounds is the effect of weather, climate and natural risks.

Community Schemes situated at the coast will be more vulnerable to rust, sand impact and higher winds. These schemes will require more regular painting and maintenance of buildings, rooves and railings etc. will require specific maintenance. Buildings built out of face-brick and tile will require less maintenance than plastered structures or structures with thatched roofs. Community Schemes located on slopy ground, rocky terrain or poor quality/sandy/clay soil, or situated near wetlands/50-year flood-lines will be vulnerable to specific operational and maintenance challenges i.e. subsidence, wash-away. The level of rainfall will dictate the extent of guttering, drainage and retaining walls required.

Fire will always present a major risk to Community Schemes situated alongside open areas, dense vegetation, mountainous areas and veld.

Climate change and wild weather will pose increasing challenges to Community Schemes e.g. massive rain fall swings, floods, subsidence, landslides, storm surges etc. as a result drainage, barriers and structural support become essential.

Developer/Development Issues

A specific area of potential impact on a Community Scheme is the question of ownership and the extent of control and influence that the developer/operator may still have due to unsold stands/units/shares or undeveloped areas. This can vary from an extensive majority interest in the overall ownership to minimal or no influence at all.

The higher the level of ownership which the developer has, the greater the risk on the minority owners. Unsold units/stands invariably have a drain on the Community Scheme and the developer's ability to continue financing the development or paying of levies.

A very specific area of risk can arise where Developments are sold of plan or partially developed, and the approval and planning formalities surrounding the development, are far from complete.

Specific elements and areas that require formalisation and verification to minimise risk are:

- Signed Deed of Sale agreement with clear conditions, timelines, conditions etc being in place for respective owners
- Presence and use of Attorney/Estate Agent Trust Accounts for the holding of deposits/purchase price monies until conditions precedent are met and transfer of title is finalised
- Ensuring that the Developer has ownership of the property being developed/holds the right to develop
- Rezoning application having been lodged
- Required zoning being held/granted
- Site development plan lodged with applicable authority
- Site development conditions having been/being complied with
- Building plans having been submitted
- Inspection of non-compliance aspects having been undertaken
- Certificate of occupation being held/issued
- Certificate of Acceptability and Health Permit issued by Environmental Health being held
- Application submitted for opening of the sectional title register

The extent to which the Community Scheme is still able to/or has the right to extend, expand or undertake further development of the number of residential dwellings/units/properties can have potentially both positive or negative impacts on the Community Scheme.

Summary

The most important dimension of managing Property Complexity is to ensure clear accountability and responsibility for all key elements of the property, the buildings and common areas of the Community Scheme. These need to be identified and responsibilities allocated. Maintenance needs to be pro-active and follow a disciplined schedule and planning.

By pro-actively managing this area of the Community Scheme in tandem with the Developers and where applicable, Estate Management, Managing Agents and/or outsourced service providers etc., the risks arising out of the property complexity risk will be dramatically reduced.

Unexpected and unbudgeted property-related expenditure will be largely eliminated and become part of predictable, planned and budgeted maintenance and expenditure.