Property Complexity

Contents

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 Company/Trust owned, participative/versus not interested, young/aged, residential/holiday, working professional/retirees, problem/non-problem owners.
- Developer involvement/ interest/ influence/interest and reliance - unsold units or properties/undeveloped areas
- Its physical locality – area/proximity - urban/coastal/bushveld, areas with no natural drainage, below flood levels, near very noisy highways/busy roadways, high pedestrian activity.
- The prevailing climate (summer/winter), exposure to weather (winds/rains/lightning) and natural risks.

- The terrain it is built on – rocky areas, mountain slopes, hillsides/ridges/slopes, unstable land, reclaimed/land-filled areas, sea-sand/dunes, dolomite, silt, clay, wetlands/floodplains/below the flood-line and vulnerability to subsidence/landslides/ rockfalls.
- Overall size/extent of the Community Scheme/its physical property - boundary wall and fence line length.
- Extent and nature of the physical infrastructure – construction material type, number of buildings, type of structures, and the quality of construction materials used.
- Its construction type e.g. brick/concrete, plaster/coatings, thatch roofs, steel/glass, wooden frames, metal/steel railings, and extensive use of tiles in passages/walkways.

- The inherent total value of the assets of the Community Scheme.
- The number of units.
- The number of owners.
- The geographic area and suburb are 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.

- 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, water harvesting, solar panels, batteries, or inverters.

- The impact of neighbouring properties or Community Schemes – drainage, adjoining walls, lawlessness, irregular properties, unapproved developments.

While there is nothing that Office bearers can do about many of these elements contributing to this risk area, it remains very important that the inherent risks because of these are understood, as their potential operational and financial impact. The ongoing mitigation and management of these vulnerabilities, the control requirements and maintenance requirements/demands, and the impact and extent of these on the Community Scheme going forward need to be planned for and implemented, where practically possible.

Physical Extent of the Community Scheme

The physical extent of the Community Scheme e.g. size of the property, length of boundaries/boundary walls/ fenced security areas, the existence of multiple exit/entry points, the extent of developed areas versus un-developed areas and the nature/extent of perimeter/bordering properties e.g. highways/major roadways/sea frontage/river frontage/coastal forest/open bushveld/open ground/forest/township areas etc. has a material impact on the risks and vulnerabilities of a Community Scheme. This can be from crime, fire, flood, violent weather, disruption to general operations, traffic, pedestrian activity, or the physical access perspective.

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 to unapproved/illegal neighbouring developments. The state and condition of adjoining properties and their 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.

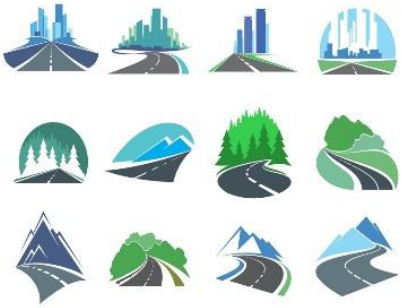
A specific area of risk is new developments which fail to comply with planning and building approval conditions and that deliberately take shortcuts in key areas such as water drainage, security controls and measures and the quality of perimeter/adjoining walls. The impact of storm waters can have very 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.

Unfortunately, no Community Scheme can operate as an island, and Office bearers need to take an active interest in neighbouring properties and their potential impact.

As a simple rule of thumb, the bigger the Community Scheme, the more complicated and difficult it is to run. The physical proximity of a scheme will also dictate the extent of wear and tear, the security requirements and the number of employees/contractors required to deliver services to owners and residents. The more

compact and concentrated a Community Scheme is, the easier it is to manage and secure.

Ground/Terrain Type



The ground type and terrain a Community Scheme is built/situated on are going to have a material impact on the Community Scheme going forward. Many of these impacts may take a long time to manifest themselves, but a Community Scheme needs to deal with and manage these risks proactively and continually before they have a major financial and operational impact.

The potential impact of different ground/terrain types needs to be analysed. These can vary from:

- Structures built on low-lying ground/land below sea level/below the flood line.

- Structures built on dolomite/limestone/clay/silt.

-Those built alongside tidal/wetland areas, those located in coastal/sea front terrain.

- Those built on sea/dune sand, structures on hillsides/mountain slopes/rocky/unstable/very-sloping ground.

- Those built on reclaimed land/landfill/unstable ground/raised ground or ground vulnerable to subsidence.

- Land subsidence, dampness, and the impact of rockfalls are very real risks that need mitigation. This might require geotechnical analysis followed by appropriate construction where possible/affordable, in tandem with taking out or holding specific insurance where practical/affordable e.g. landslide, rockfall. Drainage systems, gullies, embankments and barricades need a very specific focus.

- A specific area of consideration and management is where the Community Scheme/Property is subject to a servitude e.g. road/rail/pedestrian access, power lines, fuel/oil pipelines, and major water/sewerage pipelines. The potential risks of these e.g. electrocution, fire, explosion, spillage, flood, theft, and crime need analysis.

General

Where the Community Scheme has high-risk facilities e.g., swimming pools, jungle gyms, climbing equipment, gym apparatus, horse riding etc. specific safety and monitoring controls must be put in place. The mere display of "no responsibility/use at own risk" notices is 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 infrastructure coupled with the extent of the fencing/walling, the greater the amount of security/lighting and monitoring infrastructure will be required. The higher the number of entrance and exit points, the greater the complexity to manage and man.

Where a Community Scheme is potentially at risk of riots and civil unrest, it needs to ensure that its insurance covers damage to the physical property, infrastructure, and facilities due to violent protest. This could require a combination of traditional insurance and SASRIA coverage.

The greater the financially 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.

In cases where the ongoing provision of certain facilities or services is becoming an extensive burden and drain on a Community Scheme, their continued provision might need to be curtailed or discontinued.

Latent Defects

Most Community Schemes have inherent latent and design "defects" which in time will impact the costs of upkeep and will require extensive maintenance. These need to be identified as soon as possible and their likely impact assessed.

Latent defects can be a result of poor design, inadequate foundations, bad roof design, complicated slopes and angles, types of

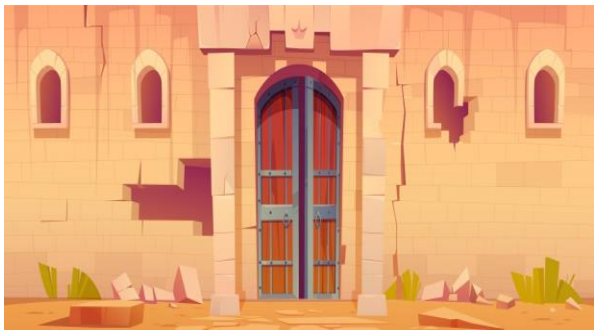
materials that have been used in construction, lack of stormwater drainage, poor insulation, lack of adequate damp course, areas not sealed properly, poor quality of workmanship, use of inferior quality building materials, lack of paving, no /inadequate retaining walls, excess exposure of areas to the weather, size of rooms and parking bays, lack of hot water capacity, poor water pressure, no access to piping/wiring/electrical plans or drawings, a lack of availability detailed building plans etc.

Some of these defects can be addressed to reduce recurrence, future maintenance/ replacement/repair costs, owner and tenant friction and problems such as water leaks or damage, but this invariably comes at a significant cost. Some forms of rectification will drain the reserves of the Community Scheme and may require a special levy to be raised.

It is important that records of warranties, guarantees, detailed building plans, wiring diagrams, plumbing and drainage drawings and technical specifications are held and kept. These can be integral in the resolution of certain problems and inherent defects.

In certain cases, redress can be made to the National Home Builders Registration Council (NHBRC) for rectification recourse, but this is only possible if the property was registered, and the contractor/builder was a paid-up member of the council at the time.

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.

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 upkeep or even replacement.

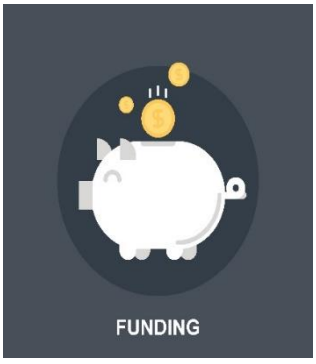
At some stage, it becomes financially prudent to replace, for example, wooden window frames, wooden garage doors or steel/metal railings etc. with more weather-resistant materials such as aluminium or stainless steel. The same applies to roof structures that are prone to continual leaking.

Persistent dampness is singularly one of the biggest factors that can impact the infrastructure of a Community Scheme. The treatment of dampness needs a specific focus as overtime 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 expenditures or emergency expenditures 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 considerable capital expenditure in the short term. The maintenance and management of these will also require ongoing 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 fairly complicated ones

requiring specialised equipment, support and expertise e.g. frail/nurse care, restaurant management, laundry services, fitness/gym facilities, pool complex, squash/paddle courts, 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 expenditures and maintain its infrastructure. Where there is a reliance on very high sundry 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 the 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 ongoing 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.

If a Community Scheme is 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 ongoing investment and is an area of essential expenditure that can't be ignored.

Where Community Schemes install backup power infrastructure (inverters/generators/solar panels), boreholes/water storage infrastructure, CCTV/Cameras/Access control infrastructure, and communal Fibre/Satellite installations, these need to be secured and the maintenance and running costs 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 the 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, gullies 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 rainfall swings, floods, subsidence, landslides, storm surge, etc. as a result drainage, barriers and structural support become essential.

Developer/Development Issues

A specific area of the 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, or lettable units which he has retained from an investment point of view. This can vary from an extensive majority interest in the overall ownership or influence/control over the Scheme by virtue of voting/board control, to minimal or no influence at all.

The higher the level of ownership or influence/control which the developer has, the greater the potential risk on the minority owners and/or the Community Scheme. Unsold units/stands invariably have a drain on the Community Scheme and the developer's ability to continue financing the development or paying levies. The developer might well withhold the payment of levies, setting these off against other expenses for as long as he has the majority vote or control. Another specific area of financial impact is the ongoing liability and payment of rates and taxes and utility charges by developers. Arrears in these areas can become significant.

In some Community Schemes, there is extensive initial and even ongoing reliance on the Developer to maintain key infrastructure such as access and internal roads, lighting, water treatment plants, dams and ponds, generators, and security/access control infrastructure.

A very specific area of risk can arise where Developments are sold off 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:

- CIPC/CSOS compliance as it relates to registration, the appointment of initial Directors/Trustees
- 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 the applicable authority.
- Site development conditions having been/being complied with.
- Building plans have been submitted.
- Inspection of non-compliance aspects has 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 where applicable.

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 and 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 proactive 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. Contracts around the management of critical areas related to the property e.g. maintenance, painting, pool maintenance, security infrastructure etc. need to be tightly managed against contractual terms and service level agreements (SLAs).

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