

FROM THE DIRECTOR



At Roscon we are geared up to meet the challenges ahead in 2008 by taking a highly proactive attitude in implementing vast improvements to our range of reports tailored to meet the needs of property managers. We continually invest in software, research and training of our professional field consultants who inspect properties throughout metropolitan and regional

areas. Our reports are designed for easy understanding by committee members, property managers and other interested parties.

With respect to the ten year maintenance budget plan, we have addressed numerous calls from property managers asking all types of questions seeking enlightenment. I must admit that while many of the queries are reasonable given that there is a learning curve in any new plan, we also get a significant amount of feedback indicating that managers need to expend a great deal more effort to internalise the requirements and content of this report. We are planning to hold a workshop in the near future for those managers who wish to become proficient in the understanding of maintenance plan budgets. We will keep you informed of this forthcoming event.

This newsletter also contains an extensive insurance article which outlines the correct procedures when assessing replacement insurance which you will find helpful.

We hope you enjoy reading this autumn issue of *rosconupdate*. We are always happy to receive feedback so don't be shy - tell us what you think or tell us what other concerns you may have and we'll do our utmost to keep you informed.

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PROPERTY INSURANCE

Past years of inflationary trends in the cost of building have caused prudent building owners to look more closely at their insurance cover and to adopt frequent reviews and adjustments in their insured building value.

Normally a building can be insured in one of two ways – either for Indemnity Value or for Replacement Value.

i) Indemnity Value – This option is considered the poor relation as a building so insured receives cover for the value of the building as it stands, warts and all. The insured value does not factor in adjustments to cover any likely depreciation, update existing fixtures, or to conform to current and probably more costly design regulations. If total loss occurs, the insurer would pay the actual value of the destroyed property. If the loss is a partial one, the insured may be required to contribute to the cost of repairs if the remaining old construction is replaced with new. The policy will only place the insured in the position he was in prior to the loss – no better, no worse.

ii) Replacement Value – Replacement involves the construction of a new building having the same functional use and of the same usable area as the old building, but built in conformance to current building codes, regulations and by laws which may have been adopted since the original building was constructed. This can be expressed hypothetically as owning an older building with a current value of \$400,000 but having a much higher replacement value of \$2,000,000.

An existing building of whatever age, if adequately insured in this category, would absolve the owner from expense in the event of building loss. For example, if an existing building constructed of pipe columns and metal cladding were destroyed, the owner could well be required to replace it with a building of reinforced concrete and brick construction. If the property was adequately insured and insurance premiums covered the extra cost element in the event of loss, then the owner would not be exposed to additional expense.

Fire policies have, of late, become subject to averaging and a co-insurance clause has been introduced compelling the insured to maintain full insurance. In the past many building owners have insured on a maximum probable loss basis, producing a sum insured substantially less than either an indemnity or replacement value. For example, if a building was insured on a replacement basis of \$1.2 million under a maximum probable loss basis and is then actually found to have a true replacement value of \$2.0 million, the insured will be liable for the 40% balance in the claim. The importance of being adequately insured is obvious.



VALUING BUILDINGS FOR INSURANCE PURPOSES

The calculated value of a building comprises several elements:

- Present rebuilding cost
- Allowance for cost escalation during the lead time of planning, calling tenders, construction and fit-out
- Professional fees
- Removal of debris
- Cost escalation in the likely lapse time between the insurance anniversary date and the date of any loss

Some or all of these cost factors could be automatically included in the premium quoted by the insurer, but it is extremely important to establish the extent of such inclusions.

Example: Typical insurance valuation for a building (on a replacement basis) would follow the following general model. Figures and percentages are only for illustration.

• Estimated/calculated building value on acquired data at rates current at the time of estimate	\$2,000,000
• Cost escalation for period	
Design and documentation	3 Months
Calling tenders and appraisals	1 Months
Construction period and fit-out (mean cash point)	7 Months
Total	11 Months
11 Months escalation @ 0.5% per month = 5.5%	110,000
Subtotal:	2,110,000
• Professional Fees @ 11.5%	242,000
• Cost of removal of debris	20,000
Subtotal:	2,372,000
• Cost escalation in the lapse period between policy renewal dates (worst possible case assumed)	
12 Months @ 0.5% = 6%	142,000
Insured Value:	<u>2,514,000</u>

Such value represents building costs only and excludes cost factors such as loss of revenue in the period between building loss and reinstatement, cost of leasing alternative premises in the same period, removal and upset expenses, etc. The principal cost of any calculation, and one which affects all other on-costs, is the building cost. It would be extremely prudent to obtain professional advice via a building professional before committing to the payment of insurance premiums. Above all it is important that building owners protect their investments by performing periodic cost reviews of their buildings in terms of inflation and the cost effect of the introduction of statutory and other building regulations, by-laws, etc.

At Roscon we have developed software and trained our building construction professionals to take all of the above into consideration when preparing insurance replacement assessment for our clients.

UNLICENSED PROPERTY VALUERS

We had cautioned in our previous *rosconupdate* with respect to the use of appropriate resources to conduct insurance assessments on Owners Corporation buildings.

Recently a media release by CHOICE mentioned that one of their readers, 'Joe' (not his real name) recently paid over \$500 to a independent valuer for an independent valuation of his home. He expected an accurate and unbiased assessment but the result was way off the mark. Less than six weeks later Joe's home ended up selling for around \$160,000 (20%) more than the independent valuation. Joe was surprised by the valuer's conduct. "He said he doesn't check actual sale prices for houses he'd valued," Joe says. "I would have thought this would be an essential step for a professional valuer."

CHOICE asked the Australian Valuers Institute (AVI) about this discrepancy.

"Twenty percent is an extremely large variation and is very unusual," says David Viarella, Chair of the AVI. "This could be a case of professional negligence. If the vendor suffered a loss, he could sue the valuer and make a complaint to his professional association."

However, in the ACT, Northern Territory and Victoria where Joe sold his property, property valuers are not required to be licensed which means that there is less protection for consumers.

Licensing: In South Australia and Tasmania, a person must hold a suitable qualification in order to undertake valuations. Full licensing only exists in New South Wales, Queensland and Western Australia. However, even within these states the requirements for licensing/registration varies. In non-licensed states such as Victoria, anyone can potentially hang up a shingle on their door and call themselves a valuer.

Another relevant article appeared in the November 2007 issue of "Estate Agent" a quarterly journal published by the Real Estate Institute of Victoria (REIV) for their members. Estate agents were advised that due to deregulation of valuation practices a number of years ago, the REIV's valuations committee chapter was going to become proactive and identify individuals within their own membership to hold the title of sworn valuers.

In our opinion this will no doubt confuse the public even further. The general public and even high ranking professionals are still under the impression that in Victoria we have at present sworn valuers, registered valuers, and professional valuers. The stark reality is that none are sworn or registered with any governmental controlling authority.

The REIV article went on to say that REIV sworn valuers offer a range of services to the community involving all types of real estate. Specific services provided by REIV sworn valuer include:

- Mortgage assessments
- Market value for sale or purchase
- Feasibility studies
- Rental assessments
- Rental determinations
- General property advice
- Compulsory acquisition
- Compensation (town planning)
- Statutory valuations
- Rural valuations

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Note that there is no mention of insurance replacement assessments within the services provided. It may be that their professional indemnity insurances do not cover insurance replacement assessment valuations. We highly recommend that anyone using the services of a self proclaimed valuer specifically request and examine their professional indemnity insurance policy to ensure that there is a specific clause giving them cover to value and or perform insurance replacement assessment valuations.

Don't risk your insurance obligations under the Owners Corporation Act. Employ a building professional who thoroughly understands the complexities of removal and rebuilding of an entire building. Roscon is licensed and registered with the building commission of Victoria though the Victorian government in the categories of Unlimited Domestic and Unlimited Commercial. We also carry all the necessary indemnity insurances for conducting Insurance assessment reports and a range of other property related reports.

SPECIAL OFFER FROM ROSCON

Order our leading edge 10 Year Maintenance Plan Budget during the months of April, May, June and receive a FREE Insurance Replacement Assessment Report/valuation on the same Property. (Offer ends 30th June 2008)

If you have been holding back from trying us on your insurance assessments, now is an excellent opportunity to trial it. Until 30 June 2008, it's FREE and our valuation can be used by the Owners Corporation for up to 5 years. Compare our insurance assessment with your current valuation to confirm if you are grossly under-insured or even unnecessarily over-insured. You may end up saving the Owners Corporation money if it is over-insured or more importantly, learn that you are inadequately covered in the event of loss.

We understand some managers and or owner corporation's committee members will want to take advantage of this offer but may not be able to convene the owner's corporation AGM for some time. If you order the 10 Year Maintenance Plan Budget and prepay before 30th June 2008 we will provide the FREE insurance assessment report.

All our reports can be ordered online or quotes can be requested online. Visit our website www.roscon.com.au and see how easy we have made it for you.

OUR REPORTS IN DEPTH

Insurance Replacement: We have had discussions with a leading insurer in reference to queries raised by Owners Corporation Managers. A frequently asked question follows:

- *When an insurance valuation is performed do we inspect the inside of every unit and note all improvements that have been performed within the unit?*

The answer is that we do not inspect all of the interiors of the Units. The valuation is based on the value of the improvements that are on the land at the time of the inspection, including the standard Unit interior. The details of improvements that are installed within a specific Unit should be supplied to the Owners Corporation Manager who should keep a record of the improvements on file in their office.

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We have been notified by CHU is that they have instigated a new section of their insurance policy – Policy 10. This policy provides cover to the value of \$250,000 per Unit, for improvements installed within a specific Unit. Policy 10 provides a fair means of disbursement of entitlements in the event of total destruction of the property. A Lot Owner who has not installed improvements in excess of the standard unit will receive his share of the insurance payout based on the entitlements table. A Lot Owner who has installed improvements in excess of the standard unit within his lot will receive a payout based on the entitlements table plus a payment for installed improvements that are on record in the Owners Corporation Managers office. And recorded in the minutes of the meeting.

We strongly advise that you contact your insurer to confirm that you have a level of cover that is provided by CHU's Policy 10 including any special requirements and or charges that may be applicable.

In an effort to assist Owners Corporation Managers in the execution of their duties, we have placed a link to an INTERNAL IMPROVEMENTS form on our web site at www.roscon.com.au. The link is located by selecting information on the menu located to the left of the screen.

We have also provided a link in the information tab to the CHU document GUIDELINES FOR OWNERS CORPORATIONS which is very informative and is designed to assist Owners Corporation members in identifying and understanding the requirements of the proposed Victorian Owners Corporation Legislative framework and information on how to protect the assets and liabilities of the individual proprietor.

Maintenance Plan Budget: There appears to be some confusion over Maintenance Plan Budgets. The following is the pertinent excerpt from the legislation.

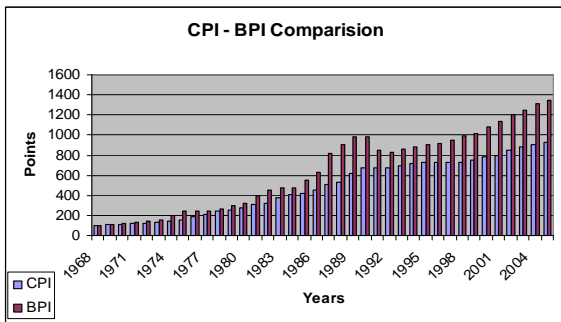
37. What must a maintenance plan contain?

- (1) The maintenance plan must set out —
 - (a) major capital items anticipated to require repair and replacement within the next 10 years; and
 - (b) the present condition or state of repair of those items; and
 - (c) when those items or components of those items will need to be repaired or replaced; and
 - (d) the estimated cost of the repair and replacement of those items or components; and
 - (e) the expected life of those items or components once repaired or replaced; and
 - (f) any other prescribed information.
- (2) In this section "major capital item" includes —
 - (a) a lift; or
 - (b) an air conditioning plant; or
 - (c) a heating plant; or
 - (d) an item of a prescribed class.

We are often asked to prepare quotations for reports based on 25 year plans although the maintenance plan only requires the itemisation of major capital items requiring attention within a 10 year period. Because of fluctuations in the Consumer Price Index (CPI) and the Building Price Index (BPI) which applies pressure to the long

term accuracy of the report, it should be reviewed at least every five years just as you would review a ten year plan.

History has shown us that we have very buoyant inflationary factors that we must deal with on a year-to-year basis. In 2005 we had an increase in the BPI of 9.61 points, an increase of 11.22 points in 2006, and another increase of 7.83 points in 2007. The Government is attempting to reduce spending and has stated that there will be no further tax cuts as they feel that this may fuel inflation. As the Reserve Bank continually increases interest rates, banks follow suit by hiking interest rates over and above that of the Reserve Bank. Then the Reserve Bank asserts that inflation is still on the rise and they may increase interest rates again. With all of this in mind you can see why a Maintenance Plan needs to be reviewed on a regular basis.



In a typical scenario whereupon an individual Owners Corporation is attempting to negotiate a lift contract with a major lift company means that they have very little leverage in negotiating a sensible, affordable figure. However, imagine if Roscon were in a position to represent 100 lifts in the CBD alone, how would this change the annual maintenance figure? Up until now the property management industry has not given any serious thought about the strength of consolidation and its ability to reap cost effectiveness. Roscon can negotiate a number of contracts so that the end result is a cost savings to the Body Corporate/Owners Corporation.

Roscon takes the risk on repair and maintenance costs. *"We are happy to work within these guidelines as we believe this reinforces our commitment and removes our client's risk. If for example a light globe is not working or a door lock is malfunctioning we replace or repair it. There's no limit to the tasks we're asked to perform in managing maintenance in a property portfolio. Our key personnel have construction & property management expertise".*

Our acquired knowledge and extensive experience in property has enabled us to identify a VOID in the property maintenance and property reporting industry.

Roscon Group of Companies (Roscon) has evolved from its history of developing its own projects and construction and management of commercial and industrial projects. Its operations have been established in Melbourne since 1987. Since our beginning Roscon has extended its service capabilities into Property Maintenance Management, Grounds Management, Cleaning Services, Graffiti Removal, Waste Collection and all other Maintenance Management just to name a few. Our management system has been assessed by international certifications and found to comply with the requirements of ISO 9001:2000 Quality Management standards.

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Outsourcing immediately makes available your business' most valuable resource – people power, enabling your management team to focus on operations fundamental to your business. Services that are not core to your business, but are still essential to your operations, benefit from specialist service delivery. When performed by people who know their job intimately, our services improve maintenance management control. Non core functions now strictly governed by statutory requirements require expert management and supervision.

It is acknowledged that a property manager will spend a considerable part of their working time attending to maintenance issues. On large developments it's not unusual for the property manager to deal with up to 20 or more contractors. By outsourcing the maintenance to Roscon your property managers will be further able to focus on managing and expanded property portfolios directly resulting in significant increase for your company's bottom line.

We recruit industry experts with senior management experience and comprehensive understanding of issues relevant to the markets in which we contribute.

MAINTENANCE BUDGET REPORTS

Due to the large number of maintenance reports we are currently conducting we are receiving feedback by managers who have been instructed by their committee members to obtain quotes for a longer maintenance plan than the typical 10 years stipulated in the OC Act. There have been requests to extend the maintenance plan to 15 years and in some cases, up to 20-25 years.



Roscon has developed its own in-house software to enable these complex reports to be calculated. We have now updated our software to provide up to 30 years. Longer periods attract slightly higher preparation fees. However, we recommend that managers produce 10 year plans and then update the plan prior to its expiry in order to ensure that their plans are periodically reviewed and adjusted to reflect any significant changes in the property and the economy.

NEXT *rosconupdate* winter 2008

- 1) Facilities Management
- 2) Equipment Hire as opposed to outright purchase
- 3) Who's looking after your business after hours? Roscon 24/7 maintenance service new number 1800 ROSCON

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