

**ECONOMICS AND INDUSTRY STANDING COMMITTEE**

*Final Report of the Inquiry into the Western Australian Strata Management Industry*

**MR A.D. McRAE** (Riverton) [10.38 am]: I rise in my role as the chairperson of the Economics and Industry Standing Committee of the Legislative Assembly. I present for tabling the Economics and Industry Standing Committee report No 5, which is the final report of the inquiry into the Western Australian strata management industry.

[See paper No 1266.]

Mr A.D. McRAE: I also ask that the House accept for tabling the submissions received for the purpose of that inquiry. I seek leave to table those as well.

Leave granted.

[See paper No 1267.]

Mr A.D. McRAE: I am delighted to be the chairperson of the committee tabling the fifth report of the Economics and Industry Standing Committee. This report is the committee's second and final report on its inquiry into the Western Australian strata management industry. The committee's inquiry came about in response to matters put before the committee by the Minister for Consumer and Employment Protection, Hon John Kobelke. Minister Kobelke had been dealing with approaches from members of the industry and matters arising across government that revealed the emergence of potential management and capital risk issues.

Maybe, by way of background, some of that can be illuminated. The living arrangements of Australians are changing, with a trend towards increased occupancy in strata title residences. Strata schemes account for 22.5 per cent of all properties. There are currently more than 43 000 strata title schemes in Western Australia across more than 190 000 individual units in total. More than 89 per cent of those are residential. Strata properties are important in both city and country areas. The estimated total capital value of all strata properties in this State is \$29.7 billion. The market share of strata properties in property development is increasing continually. In addition, the size and complexity of new schemes are also increasing.

In the management of this industry, we now know that there are more than 120 strata managers in this State managing some 4 000 to 5 000 strata schemes. Strata managers are not licensed or regulated under the Western Australian Strata Titles Act 1985.

There is a real timeliness in the conduct of this inquiry and the precautionary approach to the investigation that has been adopted by the committee. In the course of the committee's inquiry, people raised legitimate concerns about the need for reform and for targeted regulation, and a degree of better coordination of strata property management. The committee is satisfied - I emphasise this point - that there is no evidence of crisis in the industry. However, the committee also recognises that the time for review and reform of governance arrangements is now. It is true that the committee believes that in the absence of targeted reform there is a likelihood of capital loss to individuals, and potentially the State, because of the future failure of a major and complex strata title scheme. A number of examples of potential loss were given to the committee during its inquiry. In particular, members of the industry explained and characterised a couple of high-rise, multi-title properties with a significant increase in the maintenance and capital infrastructure reinvestment demand appearing on their forward planning horizon also being confronted with a decline in the real value of those properties.

It is interesting to note that in other States, in particular in New South Wales and Queensland, that problem is averted simply by the massive increase in property values that the markets in those States are experiencing. We know that the Western Australian property market has been rising at a much more steady and probably sustainable rate, and has not been overinflated. Indeed, the potential risks in the strata industry in Western Australia have not been covered up by that highly inflated property market value appreciation rate.

Although the regulation of strata managers was the initial focus of the inquiry, it became apparent to the committee during the inquiry that broader issues existed. We needed to deal with strata property owners' understanding of their rights and responsibilities and with the need for strata properties, particularly complex strata properties, to make capital provision for long-term maintenance and reinvestment matters.

The committee recognises that the variables of size and complexity of strata properties affect the degree to which regulation may be required, and in this report proposes a system that categorises strata properties according to their size and structure. This categorisation model proposes three tiers of management and governance for each category. Smaller schemes of up to five single-storey lots will have little or no additional regulatory requirements placed upon them. Larger schemes are considered to have more complex and substantial financial management and administrative risk issues associated with them. As a result, the committee has proposed stronger financial reporting mechanisms, the establishment of reserve funds and the appointment of licensed

strata management agencies for these schemes. The regulatory framework developed by the committee provides greater clarity of management of strata properties, provides for the protection of scheme-managed funds and, importantly, provides for the establishment of long-term maintenance funds.

The committee has examined and made recommendations relating to the area of dispute resolution and the role of the Strata Titles Referee. The committee recommends that the role of the Strata Titles Referee be strengthened and incorporated into the proposed State Administrative Tribunal. This will provide a timely, cost-effective alternative to the current dispute management arrangements available to the industry.

I pause to draw the attention of the House to the significant failing in the dispute-resolution process that operates today by observing that the Strata Titles Referee is able, under the Act, to hear disputes and issue orders in relation to those disputes. However, there is no provision for the enforcement of those orders. Indeed, the parties that may be the subject of those orders need to seek redress in the courts, which is sometimes a complex, costly and unsatisfactory mechanism, for the enforcement of those orders. In the committee's view, there must be a better way of resolving disputes between strata title property holders, between strata title companies and their professional managers, and between strata title companies and neighbours.

There was strong support from the industry for the conduct of this inquiry. I put on record the committee's appreciation of the contribution of the Strata Titles Institute of Western Australia and its president, Mr Mark Atkinson. I am grateful for the contribution of members of the industry during the committee's regional hearings - in particular, Ms Eleanor Logiudice and Mr Jack O'Malley, who gave valuable assistance during the committee's hearing in Busselton. In Kalgoorlie, acknowledgment is also due to industry stakeholders and managers, including Mr Gavin Gilmore, Mr Wayne Walker, Ms Margaret Boyden, Mr Lindsay Murphy and Mr Allan Pental.

I acknowledge the support provided to the committee by a number of individuals within the Western Australian public service, including Dr Catherine Bennett of the Department of Consumer and Employment Protection; Mr Bob Kronberger, the Strata Titles Referee; Mr Ross Lambert of the Valuer General's Office; and Mr Charlie Noble of the Department of Land Administration.

As a result of staff arrangements for committees, in that there is likely to be some rotation of staff among the committees as part of the development of portfolios of knowledge, it is appropriate, in addition to thanking my fellow committee members, to give particular thanks to the group of staff members who have supported the committee. "Well this could be the last time - This could be the last time - Maybe the last time - I don't know" that this group of people will be together and able to contribute in such a way to a committee's inquiry. I pay particular regard to Dr Ray Wills, who is the principal research officer, and to research officers Liz Kerr and Jovita Hogan, who are to be congratulated for their dedication and commitment to the work of this committee. I commend the report to the Parliament, industry and the community.

**MR B.K. MASTERS** (Vasse) [10.49 am]: I share many of the good words of praise that the Chairman of the Economics and Industry Standing Committee, the member for Riverton, has just passed on to a large number of people involved in the inquiry into the Western Australian strata management industry. In particular, I thank the three staff members, Dr Ray Wills, Liz Kerr and Jovita Hogan, for an awful lot of hard work. I also acknowledge the very significant contributions made by all the other four members of the committee: the members for Riverton, Collie, Eyre and Darling Range.

When the suggestion of an inquiry into the strata management industry first came to the committee, I thought it a dry, dull topic, well suited to being studied only by economists. However, the more the committee thought about the issues behind the request for an inquiry, the more we all appreciated the need for such an inquiry, and its importance to a very large number of Western Australians. For example, there are more than 40 000 strata properties in Western Australia, and more than 180 000 strata titled units, with a combined estimated value of \$25 billion. Of those 180 000 units, some 157 000 are residential. This suggests that between 200 000 and 400 000 Western Australians live in residential strata properties. Based on the evidence given to the committee, the use of strata titles to create individual lots for residential, industrial and commercial purposes is increasing in popularity. Another issue of interest is that, if each of those 40 000 strata properties had just \$1 000 held in some form of bank account for management purposes, that would amount to some \$40 million held by a fairly small group of strata managers, hopefully for looking after the interests of the unit owners. However, many of the strata properties are very large, complex and valuable buildings or groups of buildings, for which \$1 000 would be a very small amount of money to be held in trust or paid to a strata manager to look after the interests of the company. If it is assumed that \$10 000 per strata property is provided by the owners to a strata management company, the total annual turnover would be \$400 million. One final claim made to the committee before it finally agreed to go ahead with the inquiry was that very few controls were imposed on strata management companies under the Strata Titles Act 1985.

I will not repeat the findings and recommendations of the committee because the member for Riverton has already done a very good job of that. I will simply summarise the findings by emphasising three key recommendations. Firstly, strata company managers will need to be trained, licensed and appointed to look after the more complex strata properties. Secondly, there will be three categories of strata property schemes, ranging from the very simple, which may be a duplex or a triplex, to the very complex multi-storey residential strata properties that are now being built in large numbers in central Perth and elsewhere. The third key recommendation is for a requirement for trust funds to be created for most of the more complex strata properties, and for the auditing of those trust funds. These recommendations, if implemented by the Government, will provide a significant degree of certainty and security to strata property owners. If anyone is interested in cutting to the chase, I refer them to table 5.1 in the report on pages 50 and 51, which is a very readable and understandable summary of the key recommendations of our inquiry, and how those recommendations will impact on the three categories of strata schemes.

I thank again the staff and my fellow committee members. We all worked very well together. I also thank people from my electorate who attended the public forum held in Busselton on 28 January. In particular I thank Ms Eleanor Logiudice, who travelled all the way from Perth primarily to provide us with the opportunity of visiting some of the strata titled holiday accommodation properties she manages in the Dunsborough area. Even though I am the member of Parliament for that area, I had not previously seen any of the properties Ms Logiudice took us to. I also thank Mr Jack O'Malley, who in his quiet and unassuming way convinced the committee that smaller strata properties, especially in country Western Australia, needed special consideration. The requirements for strata companies to employ licensed managers and implement certain financial requirements, such as trust funds and similar accounts, would have been quite a significant financial and logistical difficulty for some strata company managers in some rural areas. I commend the report to the House, and thank everyone who has been involved in its production.

**MR J.H.D. DAY** (Darling Range) [10.56 am]: This is a significant report and survey of the strata title industry in Western Australia. As we have heard from the previous speakers, this industry is expanding rapidly. I do not need to repeat the comments that have already been made, but I wish to place on record my thanks to all those who made a contribution to the comprehensive outcome of this study of the strata management industry in Western Australia. I thank all those who made submissions and gave evidence; my fellow committee members; and the staff: Ray Wills, Liz Kerr and Jovita Hogan.

**MR M.P. MURRAY** (Collie) [10.57 am]: I support the report of the committee. Along with the rest of the members, I thank the staff and wish Liz all the best as she moves on, which I believe she is doing. No doubt we will see her smiling face around the corridors. I thank the committee members who took the time to travel to Kalgoorlie and to Busselton. I went to Busselton and found it very enlightening. There is some small difference between the way strata titles work in country areas and in the city. I was very impressed with the people who made submissions to the committee. They were, in the main, in support of what we were doing in trying to tidy up a few edges in the strata industry. I am pleased to say that my major areas of concern, including the reserve fund and the status of the strata title referee, have been addressed in detail. Those things really needed doing. I have spoken in this House before about declining funds as the buildings get older, and the danger of people being caught out, especially older people, which concerns me greatly. I believe this report will address those issues. I commend the report to the House.

**MR J.J.M. BOWLER** (Eyre) [10.59 am]: I thank the committee staff, who have done most of the work: Dr Ray Wills, Liz Kerr and Jovita Hogan. Two of them are sitting in the Speaker's gallery today. As the member for Vasse said before, being a country member I did not even regard strata title as a major issue. There is no doubt that, without this intervention, Western Australia could have been heading for a disaster. Some people may have lost their life savings. Progress in Western Australia has been very ad hoc. The industry has grown alarmingly in the past 20 or 30 years. Thirty or 40 years ago there would not have been a strata title in Western Australia, and now there are over 150 000 and the number is growing by the day. Hopefully, the work of this committee will prevent future disasters, and I commend its recommendations to the House.