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Cracks in the Compact City: Tackling Split Incentives in the Multi-Unit Market

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Outline



- Background – CF Research on strata
- What are we talking about? The recent scale of multi-unit development.
- Quality in the multi-unit market – buyer beware.
- Conceptualising the split incentive problem: risk shifting and fragmented decision-making.
- Possible solutions: Integrated procurement, risk sharing and culture shift
- Is the cavalry is coming over the hill? Build to Rent, Community Housing Providers and the Überisation of multi-unit housing.

City Futures – a decade of research on strata and multi-unit housing



- 2006 Strata Research Consortium: NSW Strata managers, lawyers, owners, insurers, funders and government
- Supported a long term program of research on strata and multi-unit living:
 - *Tackling Major Defects in Multi-Unit Strata Title Housing (Funding applied for)*
 - *Developing a national strata database (with Deakin and Griffith Universities) – ongoing*
 - *Planning in a Market Economy: The case of the compact city (2015-18)*
 - *City Living: Urban consolidation and the social sustainability of cities (2014-19)*
 - *Renewing the Compact City: Urban redevelopment in a complex multi-stakeholder environment (2013-15)*
 - *Strata Stakeholder Mapping (2015)*
 - *Green Square Community Survey (ongoing: last survey 2014, current survey 2017/8)*
 - *The Accessibility Needs and Challenges of Strata Residents (2013)*
 - *Governing the Compact City: The role and effectiveness of strata management in higher density residential developments (2010-12)*
 - *Living Well in Greater Density (2010)*
 - *The Demand for Higher Density Housing in Sydney and Melbourne (2008-2010)*
 - *Managing Major Repairs in the Residential Strata Sector (2008)*

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High density multi-unit housing: Back from the dead?



Wasn't it supposed to be all over in 1968?

High density housing has reinvented itself – driven by private rental investor market



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The Multi-unit Revolution: And there's much more to come.....



- Post-GFC – rapid expansion of higher density multi-unit development
- 2009 – 43,000 units approved nationally = 27% of total
- 2017 – 103,000 unit approved nationally = 47% of total
- 58% in NSW and 47 % in Victoria
- 310,000 units in the development pipeline – no shortage of supply!

The multi-unit revolution: building approvals, Australia 2006-2017

Source ABS (2017) 8731.0 Building Approvals, Australia,

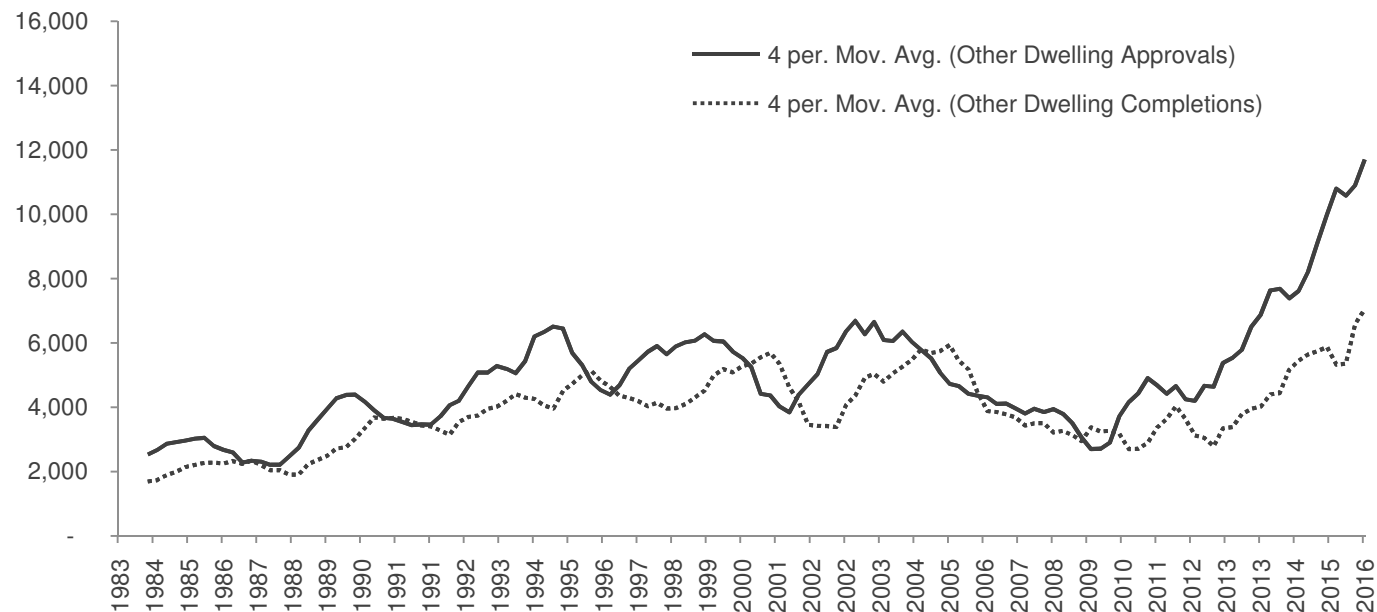


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The multi-unit revolution: Approvals and Completions, New South Wales 1983 – 2016



Source ABS (2017) 8731.0 Building Approvals, Australia,



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Split Incentives: A fact of life in the strata product?

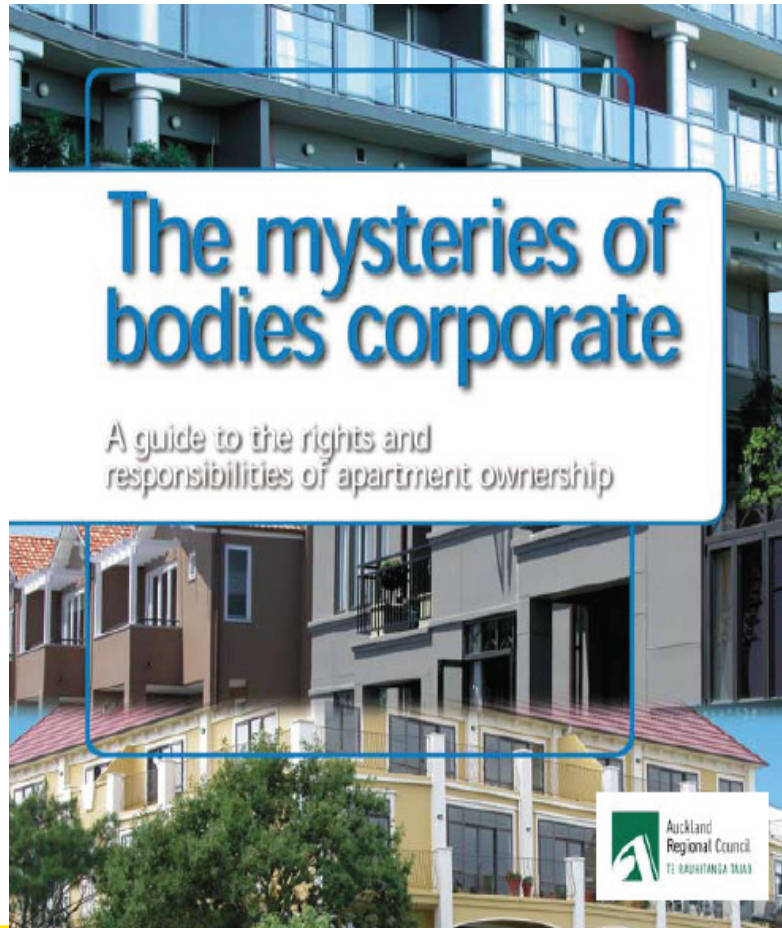
The multi-unit strata model is riddled with split incentives

➤ Split incentives abound:

- between developers and owners
- between resident owners and investors
- between current owners and future owners

➤ Complex ownership and governance structures:

Owners corporations, many stakeholders, decision making is often difficult, contentious and remedies are costly and time consuming.



The problem of the 'amateur' building manager

Most owners have little
idea of the complexities of
being a member of an
owners corporation or the
problems and costs of
getting decisions made

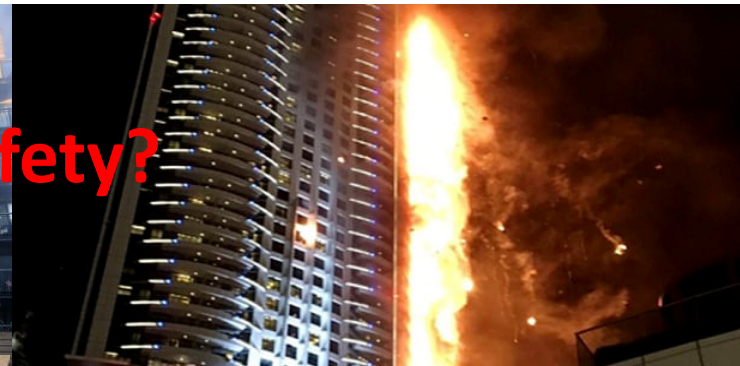


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How prevalent are defects in multi-unit strata?



Safety?



Equity?



Quality?



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What's the evidence for strata defects?



Australia Research Council Grant: *Governing the Compact City* (2010-2012)

Partners: Strata Research Consortium Partners: SCA NSW, Lannock Strata Finance, Owners Corporation Network, NSW Office of Fair Trading and LPI, Macquarie Bank

Survey of 1,550 strata residents in Sydney/NSW in 2011

Key findings: 72% reported defects of some description
85% in strata schemes post-2000

Main defects: Internal water leaks (42%), structural cracking (42%) and water penetration from outside (40%),

Main problems: 'Phoenix companies', developer control of management, insurance delays

Alternatives to the current multi-unit model #1



Build-to-Rent: the corporate alternative to 'off-the-plan' strata?

Alternatives to the current multi-unit model #2



Nightingale Housing: the consumer friendly alternative to ‘off-the-plan’ strata?

More Homes, Fewer Complaints

Report by UK All Part Parliamentary Group for Excellence in the Built Environment (2016)



Identified a need for reforms to ensure that:

“....new homes ... are fit for purpose, are of enduring quality, perform to the requisite levels of maintenance, cost and energy efficiency and give peace of mind, pride and enjoyment to those who occupy them.”

Key recommendations to redress the imbalance between builder and owner:

- *improving the systems in place to check quality and workmanship;*
- *developing a new quality culture within the construction industry;*
- *improving customers' means of redress through the establishment of a **New Homes Ombudsman** and a review of the warranty system; and*
- *improving the information customers receive about their new home, including standardised contracts and a right to inspect before completion.*

UK Government – intention to act

- The Housing Minister, Alok Sharma: *“it is clear that home builders need to step up and make quality and design a priority. That includes ensuring that, where something goes wrong, house builders and warranty providers fulfil their obligations to put things right.”* (16 October 2017)
- Sajid Javid, the Secretary of State, promising consultation in 2018, said he would *“look at options to explore how the overlap between responsibilities can be improved. This would help to avoid the confusion faced by consumers over where to seek help.”* (29 November 2017)



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Thank you



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