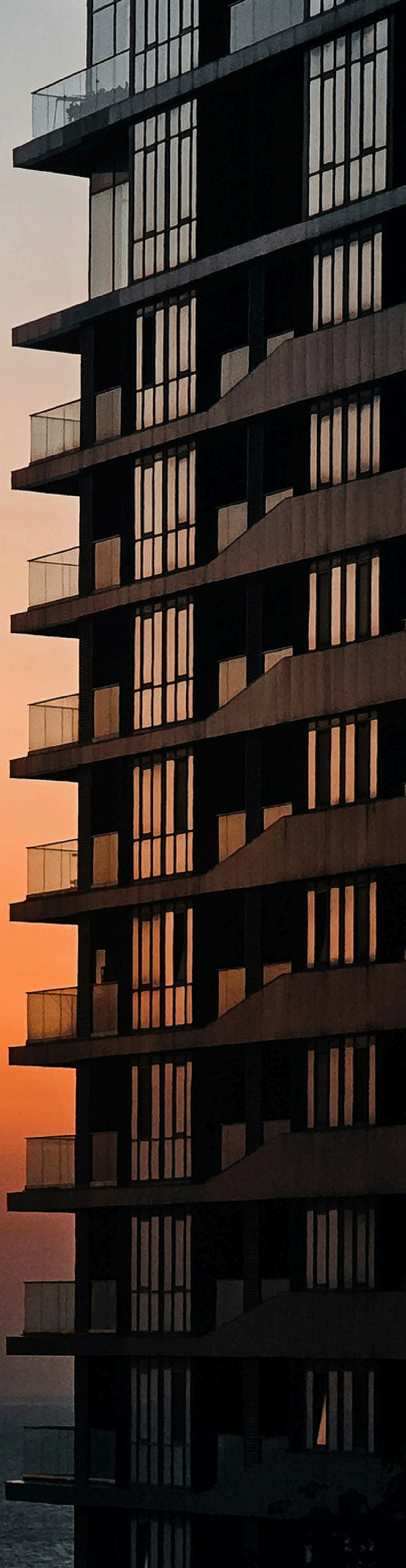
VANTAGE STRATA



Leveraging collective buying power in strata communities

WRITTEN BY VANTAGE STRATA
SEPTEMBER 2024

Introduction

Strata communities house a significant and growing percentage of the Australian population. With this comes untapped potential for strata managers to leverage collective buying power for existing service requirements and future resident needs.

From the outside looking in, management of common property and base building services is seemingly well catered for by strata managers, yet behind closed doors, there are parallel needs of owners and residents that are largely left to individuals to handle. Where these two worlds collide and offer untapped potential is the collective management, maintenance and maximisation of shared service needs, facilities and assets. For the modern strata community, a renewed focus on streamlining of services and collaboration is an area of management ripe for an overhaul – and one that can lead to considerable benefits.

From essential equipment such as air conditioners and smoke detectors to securing cost-effective insurance and utility plans, strata owners and residents often find themselves negotiating individually with service providers, leading to varying rates and fragmented service delivery. By collaborating and pooling resources, strata communities can unlock the efficiency dividend that is generated by collective purchasing, leading to cost savings and improved services for all.

As highlighted in ABC's Four Corners report and other media, today's strata industry faces a transparency crisis, notably with hidden commissions and complex ownership structures impacting common property services. For the strata services industry to thrive at a time when strata living is a reality for more and more Australians, strata managers must explore innovative, transparent value-added revenue options that genuinely benefit strata communities, avoiding opaque fees, partnerships, and services that ultimately erode trust. This white paper aims to inspire fresh, ethical approaches that align financial viability of strata management with relevant, impactful, and transparent offerings for owners and residents in strata communities. By envisioning new paths to serve stakeholders with integrity, strata management can foster a more sustainable, trustworthy industry that better supports Australia's growing urban landscape.

In the interest of disclosure, Vantage Strata has made investments into businesses that align with this approach, including Taylr Resident Services which offers behind the door services to owners and residents in strata buildings, as well as intelligent parcel lockers for common areas.

Visit vantagestrata.com or taylor.com.au for more information.

VANTAGE STRATA

taylr.

Untapped opportunities await

In simple terms, collective buying power enables a consumer group to leverage its size to secure savings on products and services. For strata communities, this is a masterful management approach largely missing in the Australian context, or at least lacking meaningful application.

Australians are spoilt for choice with space, and as a nation lags behind our European and US counterparts when it comes to capitalising on the potential benefits of high-density living. In our pockets of strata-managed titles there is a cultural resistance to allowing others to arrange services for us, whereas in markets such as the US this is commonplace.

Take apartment living in New York City as an example. This is a city that leads the way when it comes to service expectation. Onsite concierges are on hand to help residents with everything from ordering cabs and carrying groceries to stocking fridges with champagne and caviar at the top end of town. Whether our expectations around space, community and smaller population have defined our approach or there is a direct correlation with our traditional management methods, it's clear there are opportunities waiting to be unlocked.

The collective buying power advantage

In the context of strata communities, collective buying power can be a powerful tool to optimise owner and resident needs, above and beyond the standard strata services offering. A buying partnership can secure more favourable terms than individuals could achieve alone when securing essential services, and is a novel value-add that can be led by strata managers.

This is pertinent to the procurement of regular services, where bulk purchasing can lead to significant cost savings. It is best applied to the 'behind the door' needs of individuals within a strata community – think smoke detector checks, air conditioning maintenance and appliance servicing. These are essential services with repeatable patterns when it comes to maintenance and checks, but where the onus is on the individual owner or resident to manage.

Looking beyond essential services, there are also future saving opportunities with investment in technology-led services, which many strata complexes overlook or are unaware of. Using collective buying power to tap into technology advancements is one way of transforming ordinary apartment blocks into innovative and sustainable complexes. Taking a holistic view of service needs in strata communities can deliver convenience and efficiency for residents – and have a positive impact on apartment sale and rental values as complexes with enhanced facilities become more attractive to prospective residents.

Three ways strata managers can unlock value-adding service opportunities:

1 Intelligent parcel lockers

Intelligent parcel lockers facilitate secure drop-and-collect logistics for the entire strata community. Lockers streamline package delivery, enabling 24/7 access and reducing the time and effort required by residents to retrieve parcels.

In 2023, Australians spent $63.6 billion online, with 9.5 million households receiving a parcel in the mail, and 1 in 7 Australian households making weekly online purchases[1].

With online shopping the new normal for consumers and more than 2.5 million Australians living in apartments[2], intelligent parcel lockers are a functional and desirable addition to strata communities. Technology is continuously improving, enabling smart parcel lockers to manage more than just retail deliveries and traditional mail. A raft of solutions are now in the market to cater for a range of services, from dry cleaning, refrigerated goods and food deliveries to key exchanges and linen subscriptions, the latter of which are particularly useful for short-term letting.

More than one million parcels are also reported stolen in Australia each year[3]. Smart parcel lockers provide security within strata complexes, which in turn enhances the desirability of apartment-living.

By collectively investing in such technology, strata communities can negotiate better rates with service providers and enjoy more convenient, secure and efficient postal processes.

1 https://ecommerce-report.auspost.com.au/
2 https://www.abs.gov.au/media-centre/media-releases/2021-census-count-includes-australians-living-wheels-and-water-most-us-still-firmly-land
3 https://nhw.com.au/home-and-property/protecting-your-packages-from-theft/

2 Optimising processes with mobile app technology

Ever-evolving mobile app and cloud-based technology is commonly used to communicate strata matters with residents, particularly AGM information and routine reporting issues. But strata management software innovations and improvements can offer much more, with potential to centralise and enhance building management processes.

A marketplace approach to streamline communication and coordinate individual 'behind the door' needs of residents is one efficiency gain that strata management can take advantage of, thanks to the proliferation of mobile technology.

With technology at our fingertips and integration of site-specific tech solutions, there is opportunity for residents to connect, band together and seamlessly enable transactions for a range of services relevant to a high concentration of people living together. Facilitating maintenance scheduling, laundry and dry cleaning, cleaning services, car detailing and recording unit maintenance history in a central location, all have the potential to be consolidated and leveraged by residents with the click of a button.

In the same way that Uber Eats has disrupted the food industry, digitisation of strata communities is a major value-add opportunity for strata managers, owners and residents. Through consolidation of relevant services, curated specifically for the needs of residents within a particular building, there is much to be gained in cost savings, enhanced service delivery and efficiencies in coordination. And, with more than 60% of apartment residents in Australia under 40 years old[4], strata communities have youth on their side when it comes to readiness to embrace the latest technology.

4 https://cityfutures.ada.unsw.edu.au/documents/717/2022_Australasian_Strata_Insights_Report.pdf

3 Energy-efficient appliances and systems

Beyond the strata manager's responsibility of common area maintenance lies a raft of service needs that owners and residents must manage individually. And as Australians strive for energy efficiency in our homes, the use of collective buying power to manage appliance and systems maintenance can offer wins for the environment and our wallets.

Strata management can support coordination of seasonal heating, ventilation and air conditioning service needs for individual units, which will lead to reduced costs and a lighter environmental footprint. Consider an electrician who is called out to service a one-off air conditioning split system for a single unit; the job may involve a one-hour trip, time spent unpacking, service labour, time spent packing up, plus return travel. With collective buying power, the same provider could have tended to 10 units in the same visit, creating efficiencies and cost savings all round.

Considering these are services that should be arranged on an annual basis, there is an opportunity for strata managers to participate in coordinating and leveraging the collective buying power of owners – which can pay long-term dividends with better maintained and more efficient units.

Beyond coordination of maintenance services for apartments, collective buying power can also be used to procure upgrades of existing appliances and systems. In the case of an apartment building, key appliances will likely all reach the end of their serviceable life around the same time and require replacement.

One apartment owner purchasing a dishwasher will pay a standard retail price. However, 100 apartment owners banding together could access a reduced wholesale price. By leveraging this opportunity, strata communities can negotiate bulk purchases of high-efficiency heating, ventilation and air conditioning systems, LED lighting and water-saving fixtures, potentially incentivising owners to bring forward upgrades to their apartments, delivering aggregate energy savings across the entire building.

Simple energy-reducing measures have been found to reduce energy use by 40% or more. By upgrading to energy-efficient systems, strata communities can significantly reduce their overall energy consumption, leading to lower utility bills and a smaller environmental footprint. Modern HVAC systems, for example, provide better temperature control and air quality, while LED lighting offers superior brightness and longevity compared to traditional bulbs. Water-saving fixtures help in reducing water bills and promote sustainable living practices.

Strata communities that prioritise energy efficiency can benefit from government incentives and rebates aimed at encouraging sustainable building practices. These financial incentives can further offset the initial investment costs and shorten the payback period for energy-efficient upgrades.

By collectively investing in energy-efficient solutions, strata communities not only save money, but also contribute to a more sustainable living environment. This approach aligns with the growing demand for green and energy-efficient buildings, potentially increasing the market value and attractiveness of strata properties to prospective buyers and tenants.

Exploring the efficiency dividend of collective purchasing

The ‘efficiency dividend’ of collective purchasing refers to the cost savings and operational efficiencies that strata communities can achieve through economies of scale. By negotiating as a unified entity, strata owners can secure better rates, more favourable terms and streamlined service delivery.

With today’s cost of living pressures, rather than individual owners or residents seeking out service providers on their own, leveraging the collective buying power of the entire community offers savings opportunities. Owners can maximise the value of their shared resources and assets – both in terms of buying power and quality of services received.

Service providers are more likely to offer competitive rates and prioritise timely and efficient service delivery when dealing with a collective customer base. This leads to a more seamless and cohesive experience for residents.

Beyond cost savings, unlocking the efficiency dividend of collective purchasing drives increased convenience, improved access to services and enhanced community collaboration. By taking a collective approach to negotiate better rates and streamline service delivery, strata communities can simplify the procurement process for individual owners, and foster a sense of unity and shared responsibility among members.

The efficiency dividend and household spending

Data from the Australian Bureau of Statistics, released in July 2024, showed that through the year, household spending for non-discretionary items has increased by 1.8% and spending on services is up 2.3%[5]. While it doesn't come as a surprise with cost of living pressures ever-present, it does raise an interesting question for people living in a strata community – can collective buying power keep these household costs to a minimum?

The most common household expenses are universal and essential – electricity, water and gas, to name a few.

It's these indispensable services that have the potential to drive the greatest efficiency dividend within a strata community, and it presents an opportunity for owners and residents to save money.

5 https://www.abs.gov.au/statistics/economy/finance/monthly-household-spending-indicator/latest-release#goods-and-services-spending

Bulk utility supply

Bulk utility supply Strata communities can purchase utilities in bulk, such as electricity, water, air conditioning and gas.

Taking electricity as an example, when the supply is coordinated in bulk within a strata complex, a single market meter tracks the total usage of the community. The Owners Corporation purchases the electricity and recovers costs from residents. Each apartment has its own meter, and residents are billed based on their actual consumption. This practice enables the strata community to negotiate bulk rates with electricity retailers, resulting in lower costs for both common areas and individual units.

Bulk hot water and air conditioning systems work similarly, with a central plant managed by the Owners Corporation. Costs are recovered from residents through individual meters. Gas and water can also be bought in bulk and billed based on either metered or, occasionally, estimated consumption.

Overall, this system offers residents reduced utility costs, lower service fees and the convenience of not needing to shop around for utility providers. The larger the complex and the higher the consumption, the more buying power the strata community possesses with the utility retailers.

Commonly referred to as an 'embedded network', this approach is often established by the developer in return for commercial benefits between the developer and network operator. There has been some negative press towards this approach, largely from apartment owners who feel they haven't been the direct beneficiary of such arrangements. However, in many cases an Owners Corporation can negotiate favourable arrangements with an embedded network operator, even in circumstances where the developer entered into the initial agreement. Installing an embedded network by retrofitting a building where there is no embedded network is also an option that Owners Corporations can negotiate with a network operator, which can deliver potential long-term building benefits.

Key benefits of bulk utility supply:

Cost savings: strata complexes can achieve substantial cost reductions by purchasing utilities in bulk. Bulk buying of electricity, for example, can lead to big savings compared to individual purchasing rates. Strata communities can negotiate lower tariffs due to the high-volume usage from multiple residences.

Reduced service fees: residents benefit from lower service fees when participating in a collective buying network, compared to those offered by individual retail contracts.

Simplified management: collective buying simplifies utility management, as the Owners Corporation handles negotiation and billing processes. This reduces the need for individual residents to shop around for providers, saving time and effort.

Property value: implementing collective buying strategies, especially for renewable energy sources such as solar power, has the potential to enhance property value. Potential buyers are attracted to lower ongoing utility costs and sustainability. Solar power adoption is explored in the case study below.

Energy efficiency: strata complexes can optimise energy consumption through smart technologies and regular monitoring, leading to further savings and efficient resource use.

Adopting solar power in strata properties

Implementing solar power in strata properties is a prime opportunity for leveraging collective buying power. However, the implementation of solar solutions within strata communities can be complex. It requires agreement from the Owners Corporation and, in most cases, a special resolution would need to be passed to proceed.

Solar options available to strata communities:

Powering common areas: this is the simplest solution, where the solar energy powers common areas and communal equipment. With the adoption of a single solar PV system, owners can benefit from a reduction in common area energy costs. Solar energy in common areas can also support the introduction of electric vehicle charging within the complex. While this solution doesn't impact individual electricity bills for apartments, common areas are often big generators of electricity, so it is a high-value solution for strata communities.

Separately metered systems for individual apartments: strata communities have the option of having solar systems installed for each individual apartment. A major consideration for this solution is rooftop space and fairly allocating unshaded roof areas between apartments. If viable, it can deliver direct energy savings to each resident. However, it is more complicated to implement.

A single system, shared to individual apartments: it may be possible to install one rooftop solar system that can be shared between units via a smart diverter. Each apartment receives an equal amount of solar energy, without the need for individual systems connected to electricity meters. This technology is emerging in the Australian market and while it holds great possibility, it is not yet common practice.

Installing solar on an embedded network: An embedded network is essentially a 'microgrid' within a strata complex, and more likely to be in place in high density, modern buildings. It is possible to install solar power on an embedded network. However, it is a complex and potentially costly process.

Other considerations for collectively purchasing solar power:

Financial: solar power installation can be an expensive exercise. Tendering the work as a collective group can drive competitive prices. Upfront funding can be managed through strata fees, special levies or loans. The savings from reduced electricity bills can offset the initial investment over time.

Regulatory: there are regulations and bylaws that govern the installation of solar panels in strata properties. Compliance with local laws and obtaining necessary approvals is essential.

Space and aspect: strata communities need large areas of unshaded rooftop facing in the right directions – north, east and west.

Harnessing collective buying power to implement solar energy solutions within strata properties can help lower the operational costs of the complex and contribute to sustainable living. As one of the more complex areas of collective purchasing, the process requires careful planning, community cooperation and adherence to legal requirements.

Why strata managers are best placed to deliver collective buying opportunities

According to analysis by Macquarie Bank, profits within strata management businesses have been on the decline for more than a decade. The cost of managing Owners Corporations has increased significantly. Higher client expectations, increasing complexity of strata communities and major workforce disruption have all resulted in accelerated wages growth for strata professionals.

Strata management reimagined

It's time for the strata management business model to refocus on additional revenue stream opportunities.

In 2024, the strata industry came under heavy scrutiny following an ABC exposé into strata management companies accused of using their position to procure services for Owners Corporations, with businesses directly connected to the strata manager. Specifically, it raised concerns about the potentially conflicted nature of strata managers receiving commissions for arranging building insurance for Owners Corporations.

For better or worse, the strata industry has evolved in such a way that insurance commissions typically make up as much as one third of the revenue earned by a strata management company. The reality is that strata industry practices are in the spotlight and there is an urgent need to find alternative, and sustainable, revenue streams to stem the decline of profitability and to prepare for the inevitable phasing out of insurance commissions.

‘Behind the door services’ innovation

Strata managers are in the best position to develop and drive innovation in the area of ‘behind the door services’ for strata owners and residents.

Although common property is the primary concern for strata management, the strata manager invariably has a relationship with every stakeholder within a strata community – from owner occupiers to renters to offsite investor owners, and even property managers and real estate agents. It makes sense that strata managers are in the box seat to meet the service needs of these stakeholders, with a range of offerings catering to apartment compliance, cost savings, convenience and resident experience.

Take the example of unit smoke detectors. Every landlord is required by law to have smoke detectors serviced annually. On average, about 40% of apartments in any building are owned by investors, and all of these apartments will have smoke detectors tested each year, albeit in an ad hoc and uncoordinated manner.

The collective buying power of the owners can be used to negotiate a discounted rate from a single service provider, communicate the offer to all investor owners within the building, drive take-up and commitment, while coordinating service delivery and apartment access. This service represents a genuine value-add for owners, and can generate enough savings to enable an ‘administration fee’ to be charged by the strata manager.

The same principle can be applied to myriad services and offerings, ranging from end-of-lease cleaning to mortgage broking assistance and everything in between. In the face of declining revenue and profits for strata managers, there lies an innovative opportunity for the strata industry to rethink traditional strata management services. With out-of-the-box, creative and compelling value-add offerings, the strata industry can ready itself for a vibrant and sustainable future.

Conclusion

With more than 3 million strata lots across 356,000 schemes in Australia[6], there is untapped buying power within strata communities.

The convergence of technology and this collective buying power presents opportunities for strata owners and residents to secure better rates for essential services, enhance facilities within strata complexes and maximise the value of shared resources. Through embracing digitisation, strata communities can drive convenience, accessibility and value for owners.

The efficiency dividend of collective purchasing not only leads to cost savings and operational efficiencies, but also promotes community engagement and collaboration among members. By working together to leverage their collective buying power, strata communities can set a new standard for efficient, sustainable and cost-effective service delivery, benefiting all stakeholders in the process.

6 https://cityfutures.ada.unsw.edu.au/documents/717/2022_Australasian_Strata_Insights_Report.pdf

VANTAGE
STRATA

vantagestrata.com.au