
FACT SHEET



Residential Body Corporate Finance

In recent years there has been an increasing occurrence of Body Corporates having insufficient funds within their Sinking Fund to cover the cost of required building repairs or refurbishment works, which can include for example elevators, facades, improvements, or – in the worst cases – the potentially disastrous ‘concrete cancer’.

In most cases, a lack of funds to carry out the works necessitates the raising of a Special Levy, which can run into many thousands of dollars per unit. In the current environment however, whereby property values may have decreased, many unit owners are unable to write a cheque of such a size, nor raise additional debt on their home loan. In such an event, this is the reality of what can happen:

- The Body Corporate cannot afford to complete the works, with the problem getting progressively worse with time – the worst case seen to date being 2013’s complete demolition of the ‘Iluka’ high-rise in Surfers Paradise due to concrete cancer;
- If multiple unit owners are forced to sell their unit to pay the Special Levy, the market value of everyone else’s unit can be detrimentally affected – thereby potentially reducing the equity of those who could afford to pay the Special Levy.

DFP’s solution is to provide a loan to the Body Corporate, thereby allowing the works to be completed without the risk of some unit owners being placed under financial pressure. Instead of having to raise a large Special Levy, the regular Administrative and Sinking Fund Levies going forward will incorporate repayment of the loan over a period of up to 10 years.

Key benefits include:

- Funds can be made available quickly so that works are not delayed
- Interest and fees are very reasonable
- There is no security taken over individual lot owners’ property or personal assets
- Nobody needs to provide a personal guarantee

To discuss this exciting solution further, contact Development Finance Partners.

FURTHER INFORMATION REGARDING RESIDENTIAL BODY CORPORATE FINANCE

The key features of this product include:

- Available for almost any type of capital expenditure which is quantifiable (i.e. not available to fund a legal battle for example)
- No maximum loan amount. (Limits apply subject to value and number of lots)
- Loan term up to 10 years, with equal monthly repayments (subject to changes in interest rates)
- Indicative interest rates currently 9 to 11.5%
- Setup fees vary from 1.5% (above \$2m) to 2.5% of loan amount.



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Q: Who is the Borrower?

A: The loan is provided to the Body Corporate only – not to individual owners, not to the Management Company.

Q: What is the loan security?

A: This is purely an unsecured loan to the Body Corporate – no security is required.

Q: Is there an early repayment penalty?

A: Depending on the lender, there may be a one-off fee of up to \$500, however there is often no fee at all. If the loan is paid out early and the Body Corporate chose to take a fixed interest rate, there may be an ‘economic cost’ (similar to most home loans).

Q: Can the loan be progressively drawn down?

A: Yes. If the works will take place over a number of months, the loan can be drawn as required to reduce interest costs.

Q: What if only some unit owners want to borrow and others want to pay a Special Levy?

A: The Body Corporate must agree, for the benefit of the community as a whole, to borrow the funds – it cannot be ‘split’ between some of the owners.

Q: How quickly can funds be available?

A: Subject to the Body Corporate holding the necessary meeting and reaching agreement, funds are usually available within 30 days.

Q: How is the loan repayment made?

A: Monthly loan repayments are made directly from the Administration Fund bank account.

Completing an application is ideally a two-step process:

1. Information required for an Indicative Approval

- | | |
|--|--|
| <input type="checkbox"/> Strata Plan number | <input type="checkbox"/> Purpose of funding |
| <input type="checkbox"/> Building Name | <input type="checkbox"/> Levy arrears listing |
| <input type="checkbox"/> Strata Management Company, and Committee representative contact details | <input type="checkbox"/> Details of any owners with multiple lots/units |
| <input type="checkbox"/> Number of lots/units | <input type="checkbox"/> Current balance of Administration and Sinking Funds |
| <input type="checkbox"/> Funding amount required | <input type="checkbox"/> Date of next Committee Meeting |

2. Information required for Formal Approval

- | | |
|--|--|
| <input type="checkbox"/> Quotation(s) for works from the contractor(s) | <input type="checkbox"/> Body Corporate Financial Statements and Aged Debtors list |
| <input type="checkbox"/> Body Corporate Minutes passing a resolution to borrow funds and carry out works | <input type="checkbox"/> Proposed budget incorporating the loan repayments |
| | <input type="checkbox"/> Copy of the registered Strata Plan, Strata Roll |

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