# Twenty Macleay Street Limited

Report to Shareholders: 2016

This year marks the 80th anniversary of the opening of the building at 20 Macleay St Potts Point: “Twenty”. Formally marking the occasion, your directors have decided it is high time to recognise the true value of the company’s largest asset, our building, in the company’s accounts. So this year, for the first time, we’ve established an Asset Revaluation Reserve in the company’s balance sheet, recognising the substantial increase in the value of “Twenty”, with a current market value of $38,500,000.

For several years the board has monitored the strong appreciation of the property, based on sale of shares in the company from 2009 to the present. In this relatively short time, the value of the building has increased by over 50%. While this gain is to some extent related to a general uplift in residential property prices in Sydney in recent years, the company’s investments in substantial improvements has made a material contribution to the increased value.

From a longer term perspective, since the company’s incorporation in the 1950s, the current market value represents a compound annual growth rate of 7.7% a year, on a consistent basis over a 60 year period. These results should give all shareholders good reason to celebrate Twenty’s 80th birthday!

As usual, this year’s Report sets out the major milestones and activities of the past year and provides guidance on the budget and plans for the year ahead.

House Management Committee

With the resignation of David Whitfield in February, this Committee has since operated with three continuing directors: Barbara Stewart, Malcolm Richardson and Mark McDonnell. As in other years, the main activity has been to interview new shareholders and tenants.

During the year we bade farewell to two long-standing resident shareholders who sadly died since our last AGM: Tony Fernandez (U45) and G. D. (John) Meston (U6). Another long-standing shareholder, Ella Fahey (U52) also died last year, giving rise to a third deceased estate transaction at “Twenty” in recent times. Mrs Fahey and her family had been shareholders since 1958.

Directors are heartened by comments from the late Mrs Ella Fahey’s daughter who remarked: *“Can I take this opportunity to congratulate the board on the improvements to 20 Macleay. I saw the agents' reviews from some years ago which were not great, however when we rang a number of them recently to enquire as to our unit's value they were unanimous in their praise of the building and the works being done.... we are very impressed. “*

We welcome as new shareholders Anna Guillan (U45) and John Chalmers with Danielle Collins (U6). In the case of U52, an existing shareholder (Hugh Murray-Walker) jointly with Michael Connolly, were approved as the new lot shareholders. Mr and Mrs Hardman (U53) also sold their shares towards the end of 2015 and we have since welcomed Dr Sally Preston as the new lot shareholder in this case.

In addition to new shareholders, we have seen about a dozen new tenants take up residency at “Twenty” in the last 12 months and the Committee has been busy reviewing applications and conducting interviews. Despite these checks, as reported last year, there are occasional instances of unacceptable behaviour from tenants including one case in 2016 similar to the circumstance we reported last year, involving domestic violence, police interventions, arrests and subsequent removal of the tenants concerned as residents. The co-operation of shareholders and residents in reporting such instances to police, and of local real estate agents in ensuring the prompt re-location of the offending parties, has been a silver lining to these otherwise regrettable incidents.

A further problematic case, caused by the son of a shareholder living in an apartment on the ground floor, resulted in a 3 am emergency call out by the Kings Cross Fire Brigade. Fortunately the alarm system worked effectively, response was rapid and no damage occurred in or to the apartment concerned. In reviewing this incident, the board has agreed to a tightening of the Rental Policy and Guidelines, applicable to adult family members of shareholders, requiring full compliance with company rules and policies. This has since been put into effect and no further problems have arisen.

Another area for extra vigilance has arisen where shareholders have allowed short term rentals; this practice in not condoned by the board and has since stopped. Some cases of unauthorised sub-letting, including through use of Airbnb and similar websites, have also been identified and action taken to ensure the practice has been discontinued.

We take this opportunity to remind shareholders that residency at “Twenty” is reserved exclusively for shareholders and their immediate families and, in specifically approved cases, for other, longer term residents approved by directors, where rental is allowed. Abuses of this policy will not be tolerated.

Use of the emergency access key was again required during the year, firstly in the case of U42, where the elderly resident shareholder, living alone, needed urgent medical attention and was taken to St Vincent’s Hospital by ambulance after access to the apartment was facilitated by director Richard Hambly using the emergency key. Secondly, access to complete the annual fire safety inspection was made using the emergency key to units 21, 32 and 45, after the shareholders and residents in these apartments failed to provide access on two separate occasions (despite prior notification). In one case, this was due to the apartment being vacant at the time.

One additional task being undertaken by Malcolm Richardson for the House Management Committee is to conduct an audit on the use of bike racks at “Twenty”. Since the racks were installed in the northern courtyard a few years ago they have been used by various bike owning residents, with the racks usually full. Malcolm has been tracking down owners and seeking to identify any bikes which may have been abandoned by former residents.   In an environment where storage is scarce, the committee wishes to ensure fair and proper usage of the facility.

Building Maintenance Committee

This committee comprises Keith Cottier (Convenor), Barbara Stewart, Richard Hambly, Mark McDonnell and, until he resigned from the Board, Hugh Murray-Walker.

As shown in the Accounts for 2016, repairs and maintenance represents the largest expense category for the company. In December last the remedial work on the western façade was completed, including new brick ties, lintels, replacement windows on all floors above ground level and associated repairs, including to the interior of affected apartments at the front of the building (new window sills, painting and so on). This project was the largest single expense incurred so far in the company’s ten year capital works program and was completed below budget.

The largest on-going maintenance work is the replacement of old electrical wiring in the building under “phase 2” of the program, which refers to new wiring from the riser into each apartment and local switches for each unit being relocated inside the unit. Once each floor is finished, new meters are also being installed in their existing location, in the stairwell landing cupboards. Five of the eight floors at “Twenty” have been fully upgraded to phase 2 and the remaining three levels (3rd, 4th and 5th floors) should be completed over the next few months.

Once each floor is finished to phase 2 stage, the hallway has been re-painted and the timber work restored and re-varnished, including, where necessary, replacing access doors to apartments. Shareholders and residents were consulted on the colour scheme and the overwhelming majority of responses favoured the beige wall colour being applied. We are delighted with the many positive comments relating to these improvements, which will continue as the electrical work progresses.

Council approval was also sought and obtained to remove the old and peeling paint on the front façade of the building and a contract has been let to refresh the street facing frontage, including re-painting the entrance and vestibule area.

Late last year, letters were sent to all shareholders expanding on the comments at last year’s AGM and in the 2015 Report to Shareholders, regarding the third and final phase of the electrical work, involving replacing old wiring inside individual apartments. As stated in those letters, the work was scheduled to begin in 2017 and must be paid for by shareholders directly. A number of shareholders have brought this work forward and phase 3 re-wiring has been completed in ten apartments with several others having been partly re-wired. Directors are pleased with the progress being made ahead of schedule in this area and thank the particular shareholders concerned for their pro-active approach to this important issue. A focus on phase 3 re-wiring in remaining units will be a prominent part of activity in the next two years. Further updates will be sent to the relevant shareholders after this year’s Annual General Meeting including details on next steps in the program.

During the year, directors accepted a proposal from Budden Nangle Michael and Hudson, architects, to prepare detailed architectural plans of “Twenty” in the year ahead. This overcomes a deficiency in the company’s records and will provide a useful resource for future planning. Access to each apartment will be needed to ensure that the necessary measurements and details can be accurately recorded. Shareholders and residents will be consulted further on the timing of unit access for this purpose.

As discussed in more detail in the Legal and Audit Committee section of this Report, some early preparatory work has been undertaken to consider longer term maintenance needs for “Twenty”, beyond the current ten year plan. Keith Cottier on behalf of the BMC prepared a cyclical maintenance schedule, setting out a wide range of on-going maintenance tasks, their probable frequency and expected cost, so as to arrive at a broad estimate of average annual funding requirements from 2020. This component of future budgets is expected to be around $100,000 a year.

Another time consuming activity of the BMC over the last year has been to approve and over-sight a number of apartment renovations. Directors are delighted with the response from shareholders to increase their investment in “Twenty” by way of quality renovation work to bathrooms, kitchens and more generally inside apartments. There has been a notable increase in this activity over the last year, both from new and long-standing shareholders.

The committee also dealt with a recurring problem with smoke collecting in the lower ground floor area when the diesel generator was tested each month. On investigation it was found the chimney was blocked and appears not to have been swept for many years, if at all. A large volume of debris was removed and the chimney now draws well, and new pipe connections were installed. Smoke and fumes are no longer a problem inside the building.

This year also saw the start of enhanced high speed broadband services being available at “Twenty”, as a result of a fibre to the basement (FTTB) installation made by Pipe Networks, a subsidiary of TPG Limited. This is a wholesale service, so a variety of companies are now offering 100Mbps internet connectivity to residents at “Twenty”. Directors have also notified NBNCo of our interest in that company also providing a FTTB service, so as to enhance the range of carriers offering high speed broadband to our shareholders and residents.

Legal and Audit Committee

In last year’s Report we projected a cash position at 30 June 2016 of $93,272. The actual cash balance, as shown in the annual Accounts, was substantially higher, at $177,312. In part this is due to withholding part payment on the western façade works, pending elapse of the 12 month defects liability period. In part it is also due to a total cost for this work that was more than $20,000 below estimated cost in last year’s budget as well as a number of other gains within the budget, detailed below.

The main variations to forecast expenses, excluding western façade and associated costs, were as follows:

* Other building maintenance costs were $140,294 compared with $160,000 projected;
* Management fees including meeting costs were $21,415 compared with $15,000 budget;
* Consultancies cost $11,950, well below the $20,000 budget;
* Insurance costs were $25,337, above the $22,000 forecast;
* Legal and accounting costs were $9,457 below the $12,000 provision;
* Cleaning costs of $24,262 compared with a prior estimate of $23,000;
* Utility costs were $81,281 against a budget allocation of $65,000; and
* Other administrative costs of $2,071 were less than the $6,000 allowed in the budget.

As reported in the annual Accounts, total expenses were $776,952 compared with budgeted outlays of $863,000.

These strong outcomes have created the scope for the company to commission architectural drawings of the building in the current year, as already mentioned in the BMC section above.

The better than forecast outcome also reflected strong financial performance in relation to the second largest of 2016 capital outlays, shown in the detailed Profit and Loss Account as electrical repairs and replacements, totalling $93,134. Again, this was well within the “other building maintenance” budget provision of $160,000.

The committee, comprising Mark McDonnell (Convenor), Brett Gebers, Malcolm Richardson, Peter Smyth and, more recently, Robert Floyd continues to explore options to achieve cost savings wherever possible. For example, in the year ahead, a new fire safety system monitoring company (Synergy) has been appointed based on a more competitive tender price, replacing DEM.

The committee is also examining options to reduce one of the largest of the recurrent expense items, water charges, which largely accounted for the cost over-run on utilities. While a substantial proportion of these costs is fixed, directors are looking closely at usage patterns and costs and expect to report next year on the results of this work.

Turning to the current financial year (FY17), the directors have approved the following budget:

|  |  |  |
| --- | --- | --- |
| **FY17 Budget** | $ | $ |
| **Opening cash** |  | 177312 |
| Levies |  | 400000 |
| Other income |  | 12000 |
| **Total cash resources** |  | 589312 |
| Western façade works – final | (25000) |  |
| Architectural drawings | (26263) |  |
| Other building maintenance | (160000) |  |
| Fire protection/ monitor | (10000) |  |
| Legal and accounting | (12000) |  |
| Utilities | (80000) |  |
| Management fees | (20000) |  |
| Cleaning | (24500) |  |
| Insurance | (26000) |  |
| Other admin costs | (6000) |  |
| Total outlays |  | (389763) |
| **Estimated closing cash** |  | 199549 |

The company’s ten year plan is based on calendar rather than financial years and the timetable and works to end of 2019 is unchanged from last year, but for convenience is set out in the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ***Sources*** | **$'000** | ***Uses*** | **$'000** |
| **2017** | Opening cash | 120 |  |  |
|  | Capital levy | 200 | Phase 2 – completion | 80 |
|  | Total | 320 |  |  |
| **2018** | Opening cash | 240 | Nil | 0 |
|  | Capital levy | 200 |  |  |
|  | Total | 440 |  |  |
| **2019** | Opening cash | 440 | North & east facades | 640 |
|  | Capital levy | 200 |  |  |
|  | Total | 640 | Closing balance | 0 |

Directors continue to maintain our commitment to keep existing levies unchanged for the duration of the 10 year capital works program, ending in December 2019. As a result, the scope of the capital works program is clearly defined and limited to the projects stated above. There is also scope for continuing routine maintenance and repairs (which cannot always be precisely defined) within these forecasts. As noted last year, phase 3 electrical work will continue over the next couple of years but as it is to be funded directly by shareholders, it is not included in the budgets set out above.

From 1 January 2020, assuming the capital works program has been completed on time and on budget, the company expects to be in position to lower the levies for all shareholders. Having regard to the cyclical maintenance schedule referred to in the BMC section of this Report, which sets out recurring capital expenditures needed to maintain the building in good order, we expect total levies of $320,000 from 2020 will be required, which is 20% below the $400,000 raised annually since 2010. In foreshadowing this lower estimated levy, we have made provision to address the major area of the building’s infrastructure that has been outside the current ten year plan, namely the plumbing, along with many other continuing maintenance commitments. Directors will continue to assess future needs carefully over the next year and provide further updates on our medium term expectations in these annual reports to shareholders. Please note that the $320,000 levy total from 2020 is provisional only at this stage, and is only being indicated so as to give some advance notice to shareholders of the likely extent of a reduction in levies at that time. Some fine tuning of this forecast may be needed based on any new information and any other material developments that arise in the next few years.

Turning to the legal work that has been a priority this year, two matters are noteworthy. The first was a review of the company’s application review and interview process for residents (whether by shareholders or tenants). This review looked in detail at risks confronting the company around the type of information gathered, the criteria for assessment of applicants and issues surrounding subsequent inappropriate behaviour by residents. As a result of the review, there was some tightening in the approvals process recommended, which has been implemented.

The second area of on-going activity relates to the application of the *Work, Health and Safety Act* *and Regulation* to company title properties including “Twenty”. A delegation comprising Mark McDonnell, Peter Smyth and Malcolm Richardson raised the concerns of your directors about regulatory over-reach with the NSW government, leading to representations being made on behalf of the company to the Minister for Innovation and Better Regulation, Hon Victor Dominello MP. Throughout the past year, the Chairman has been in regular contact with representatives of SafeWork NSW regarding changes to the scope of the Act and associated Regulations to company title residential buildings. The latest advice from this agency is that an Exemption applying to all company title residential buildings is to be gazetted, with an advance copy provided to “Twenty”. Once gazetted, it will be in force and provide the same exemption from the *Work, Health and Safety Regulation 2011* to the common areas of company title residential apartments, previously only applicable to strata title buildings. Once the Exemption has been published in the NSW Gazette, directors will review our existing *Safety, Security and Emergency Management Policy* with a view to removing any onerous obligations that are no longer required by law.

Strategic Planning Group

As announced at last year’s AGM, the board has devoted considerable time looking into the major risks confronting the company. This review has been ongoing over the past year and has been led by the Strategic Planning Group, comprising Peter Smyth (Convenor), Brett Gebers, Randall Pearce and Mark McDonnell.

Randall Pearce led the initial analysis that focussed on identifying seven major risks, which were then considered in detail at successive board meetings over the year.

A brief comment on each of these risks and some of the main considerations and follow up activities follows.

*1.      Regulatory compliance risks - compliance register and board planner has been prepared to ensure timely monitoring of major action items;*

*2.      Building Condition Assessment – a major and on-going focus of attention; new initiatives include development of detailed plans for building with contract let to the company’s architectural advisors and preparation of a cyclical maintenance schedule;*

*3.      Upside risks from further value enhancement – further work is being pursued by Strategic Planning Group on key value drivers and high value attribute analysis (further details below);*

*4.      Induction pack and directors duties and obligations -a seminar was conducted with John Morrissey, solicitor, and his booklet on key obligations of directors was distributed to directors;*

*5.      Financial risks to budget – an increase in GST to 15%, which seemed likely at the time of last year’s AGM, has receded. Continuing low inflation is assisting with cost containment strategies. An option of accelerating capital works using borrowed funds was reviewed and rejected based on the low risk rating for these factors.*

*6.      Insurance policies coverage review –a review was conducted with Richard Dunn, the company’s insurance broker with follow up on level of cover and types of risks insured; existing policies assessed as appropriate; additionally the status of the electrical wiring upgrade has been fully disclosed and noted by the insurers;*

*7.      Succession planning – two new directors were recruited to replace retiring members of the board. Longer term succession planning is under consideration to ensure a balance of skills and experience among directors.*

As noted at point 3 above, the SPG has also built on the work published last year relating to residential property values at “Twenty”. The more recent work in this area is focussing on high value apartments in the immediate vicinity of “Twenty” and a consideration of the factors that drive the exceptional results for these units. High value in this context is defined as sales greater than $5,000,000. For example, the immediate neighbouring properties on both sides of “Twenty” have recorded sales in this range. This work helps to provide guidance to directors on the factors that contribute to capital appreciation so that, where applicable, these factors can be enhanced at “Twenty”. This project is continuing and in next year’s Report further details on key findings will be provided.