

High-rise dangers

Pam Walkley warns of traps for apartment investors



MORE THAN ONE-THIRD OF new homes built in Australia now are apartments. For investors they are usually more affordable than houses and they also offer high rental yields.

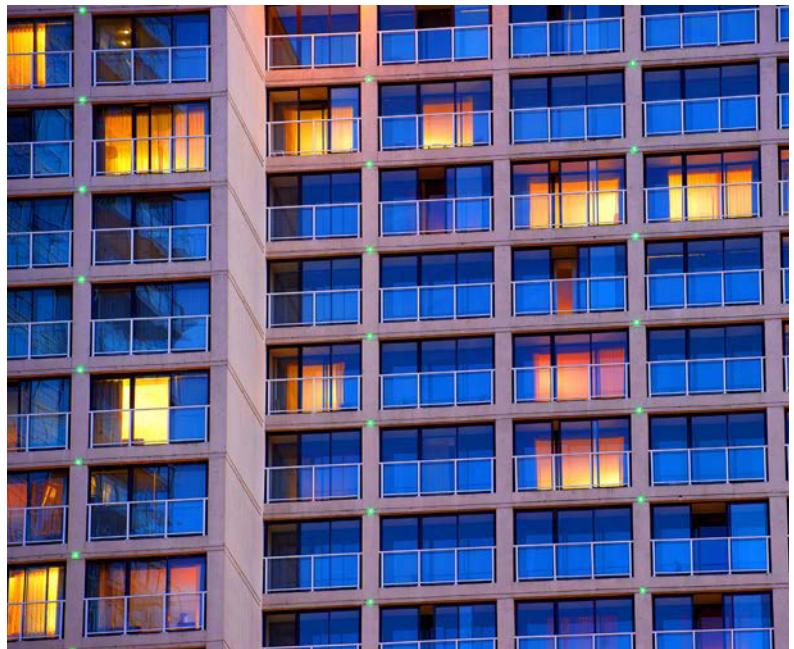
But one factor that real estate investors who buy rental apartments often underestimate is maintenance costs, which can be much higher than for houses, particularly in buildings where there are lifts, swimming pools and other expensive fittings.

And not only do investors need to make sure they realise just how much it can cost them to keep the building they are buying in a good state of repair, they need to keep on top of how that work is paid for. This is because it can affect how much they can claim as a tax deduction against the income from their investment.

The ongoing costs of owning an investment unit include strata levies, which pay for the day-to-day upkeep including gardening, cleaning and small repairs, and sinking funds, which are meant to cover the longer-term upkeep of the building, including all public areas. These payments are totally tax-deductible for an investor as long as the apartment they own is available for lease.

A problem can arise when an owners' corporation (or body corporate) needs to fund urgent building work and there is not enough money in the sinking fund, says Tyron Hyde, a director of quantity surveyor Washington Brown. In these circumstances the owners' corporation usually raises a "special levy" from the owners to pay for the work.

Not surprisingly, most investors do not like being hit with a special levy. And, because the levies usually pay for work that is essentially of a capital nature, they do not provide immediate deductions, Hyde says.



In a recent example, where a special levy of \$80,000 was raised to repair climate-related damage to a six-unit Sydney suburban beachside building, the owners faced only being able to claim back their levy over 40 years at 2.5% a year, the standard depreciation rate for building works.

Instead of simply accepting that, the strata body engaged Washington Brown to differentiate what work was capital in nature and what work could be considered repairs. The quantity surveyor found about \$57,000, or about 70% of the overall spend, could be considered repairs and therefore generate an immediate deduction for the owners.

The clients' accountant was sceptical and so sought a private ruling from the tax office. The ATO's ruling upheld Washington Brown's findings that a list of expenses, including remedial brickwork, concrete spalling repairs, retiling of balconies and concrete cancer repairs, qualified for outright deductions as repairs.

The ATO accepted that during the period the property was vacant for repairs, it was still held for income-producing purposes because it was retenanted as soon as possible after repairs were completed.

Ideally, if a body corporate knows that repair work is needed, it should plan to have enough money in the sinking fund to carry out that work, says Hyde. "But if a special levy has to be raised, the body corporate should engage a quantity surveyor to distinguish between capital work items and those that are repairs in nature."

PROPERTY FOCUS



With Lisa Montgomery*

In the current interest rate and property environment, opportunities abound, but not everyone has the confidence to take it up. This is where discipline and goal-setting are very much key.

Prospects for would-be buyers who were previously frustrated by rising interest rates are now more favourable.

Having a realistic budget in place is a must to help you manage your finances, as this will enable you to work out what you can realistically afford and what you will need to do in order to be in a position to purchase.

Developing sound financial management skills and conducting thorough and detailed research into your target property areas will be vital to empower you to build the necessary confidence to transform your dream into reality. The time is ripe, but the real power rests with you.

*CEO Resi Mortgage Corporation