QS Corner

TIP #57

In this months QS corner.. To yield or not to yield? - That's the question

One of our clients recently purchased a block of 6 units in Port Macquarie and initially I thought "Wow, what a good deal."

The client had purchased 6 units for a total of $550k and according to RP Data each unit was renting for $130 per week. So that's $780 a week in rent which equates to roughly a 7.5% yield. Not too bad.

We were engaged to prepare depreciation schedules on the 6 units, so we inspected the property and gathered the relevant data and inspection photo's.

When I reviewed the job and the photos it was clear the client had purchased an incredibly run down block.

In my opinion, this block was in need of major capital improvements in the coming years.

I think the client could be facing repair work in the region of $30,000 per unit - that's $180,000 - in order to make them fit for occupation in the near future. That will certainly eat into what looks like a very good yield on paper.

So the moral to the story is that property investors should always consider future upkeep into the **real** investment yield equation when doing their figures. Sometimes there is a reason a property is showing a high yield - and the future capital expenditure may play a part in that.

Tyron Hyde is a director of quantity surveying firm Washington Brown