

Transient population  
drives increased  
maintenance costs

new research insights  
high investor market  
solutions

## TRANSIENT POPULATION DRIVES INCREASED MAINTENANCE COSTS

If you're an owner of a strata apartment then you are most likely familiar with needing to spend money on continual maintenance of your building. But you're not alone. In fact, research shows that apartments experience higher turnover than any other property type, which can mean higher wear and tear not only on your apartment if you are an investor, but more importantly the common property which owners are all responsible for.

The report, 'Delivering the Compact City in Australia: Current trends and future implications', by Professor Bill Randolph from the University of NSW, points out that a critical characteristic of the Australian high density market is the high level of turnover, with well over half (65%) of those in houses saying they were living in the present home five years previously, compared to only 26% of apartment dwellers.

To add to this, as many as 15% of households in apartments said they were living overseas five years previously, compared to just 3% of house dwellers.

A more transient community in a strata building can mean that repairs and maintenance to common property such as foyers, painting, lifts, stairs, hallways may be required more often than originally planned for.

In addition, adequate security and fire systems may be needed to manage the behaviour of neighbours that many owners may never meet.

But by far one of the biggest challenges for owners is managing this process of repairing and maintaining. Randolph's research indicates that 55% of apartments are rented from a private landlord, compared to 14% of separate houses, indicating a clear trend that this sector is largely investor owned.

And as governments move to a policy of high-density urban redevelopment, the majority of new housing in Sydney, Melbourne and Brisbane looks likely to be generated through strata titled properties which will be sold to investors.

As many owners will attest to and Randolph suggests, the behaviour and attitudes of residents of strata properties will largely depend on dissatisfaction with living in the building, including noise levels, neighbour disputes, and conflicts over maintenance.

And with the majority of apartments owned by investors, or absentee landlords, and where many of the residents have no connection or ownership to the property other than through their landlord, body corporates (or owners corporations) have a large challenge ahead of them. How do they convince investor owners of the need to contribute for ongoing repairs and maintenance to common property when many owners simply want to reduce their outlay, especially in a market with increasing interest rates? Randolph argues that home-owners in blocks where they are the minority may find themselves disadvantaged in conflicts over repairs and maintenance

Put simply it is largely this type of investor ownership which greatly contributes to the increased cost of maintenance to common property.

### Solutions

So, how can owner-occupiers and investors find a happy medium, whereby owner-occupiers can continue to live in a safe, attractive and enjoyable building, and investor owners gain from contributing to a building they are removed from and possibly may want to sell at some point?

One possible answer may lie in how body corporates (or owners corporations) seek to fund their repairs and maintenance. Several options present themselves. Firstly, body corporates could investigate Strata Finance as a funding alternative. Investor owners may be more attracted to this type of funding as they may gain additional tax deductions for works which are principally capital in nature that they do not gain by paying a special levy. In addition both types of owners can easily budget for a fixed weekly contribution over the term. And Strata Finance also allows owners the flexibility to pass on any outstanding contributions to the new owner if they decide to sell during the term of the loan.

Secondly, many owners corporations opt to reduce their sinking fund contributions and reallocate these funds to make the repayments for Strata Finance. This can mean no overall increase in owners levies whilst being able to have the work done immediately. By far one of the largest benefits are the tax advantages of funding this way. Owners sinking fund contributions use money which has already been taxed and the sinking fund interest is also taxed, effectively meaning this money is taxed twice. With building costs rising anything from 7 to 15% p.a., this can mean the sinking fund ends up going backwards, whereas funding with Strata Finance may attract tax deductions for the investor avoiding rising building costs.

*Randolph, B. (2006), Delivering the Compact City in Australia: Current trends and future implications, City Futures Research Centre, University of NSW.*

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