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The unexpected costs of living the luxury apartment high life

High-rise luxury comes at a cost - so who pays? **Supplied**

by **Duncan Hughes**

Shocked luxury apartment buyers are discovering they are liable for thousands of dollars in additional annual maintenance fees on top of steep owners' corporation costs, according to industry specialists.

Maintenance costs, which cover up to 400 items ranging from light bulbs to lifts, are not being fully disclosed in the mandatory section 32 agreements – which are supplied by the seller to an intending purchaser – and often don't surface until warranties expire 12 months after settlement, they warn.

"It's a financial bombshell for many unsuspecting apartment owners," says Sahil Bhasin, national general manager of Roscon Group, an owners' corporation consultancy.

It's also the difference between make-and-break for many investors struggling to find – or keep – tenants where an over-supply of apartments means competing on price and amenities, or where high service costs can make it unprofitable.

Luxury apartment buyers need to understand exactly how sky high their annual maintenance fees and owner's corporation cost could go. **Supplied**

Typical fees

A rough rule of thumb is that owners' corporation fees for a standard, 50 to 60 square metre one-bedroom in an apartment complex without luxury communal facilities should be about $2500 a year.

That rises to about $6000 a year for a luxury apartment that includes a typical maintenance plan.

Two-bedroom luxury apartments with maintenance plans range from $3500 to $8000.

Bhasin says corporation and maintenance fees can double at the end of the first year. Owners also have to allow for thousands of dollars more in council rates and water levies.

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"Developers struggling for sales often understate the fees and charges to make their offering more attractive. Occupants of owners get a huge shock when they realise what they have to pay each year in ongoing mandatory costs," he says.

Demanding owners

Residents' and owners' costs are rising as developers cater to their increasingly demanding tastes by providing the latest in luxury fixtures and services along with the nation's best addresses.

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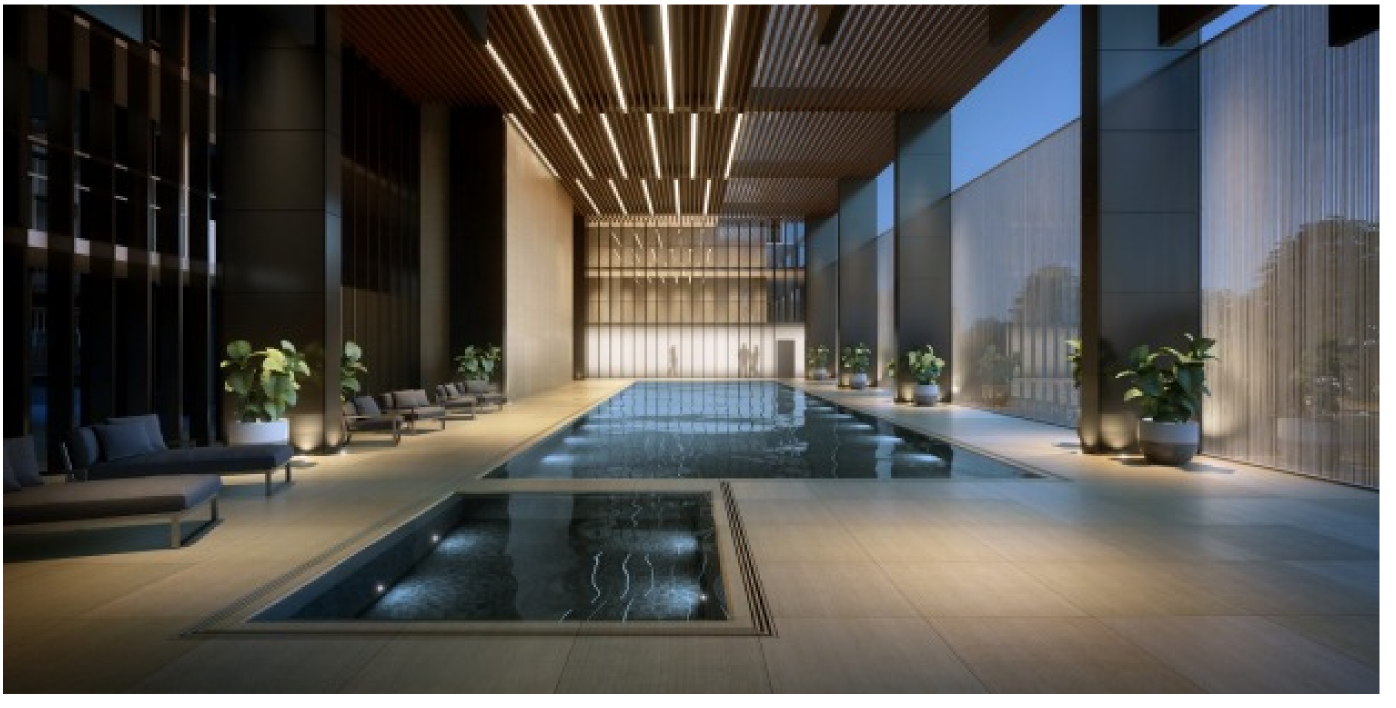
But many costs of the five-star resort facilities are often not disclosed in standard owners' corporation contracts, which set monthly financial liabilities for traditional services like waste management, insurances and building facades.

Daren McDonald, a partner with ShineWing Australia, a property consultancy, says: "Owners of residential and commercial strata titled properties need to be wary of the financial commitments they are making when they acquire a strata title property. Financial due diligence needs to be completed by the purchaser, which should include a review of the likely annual costs to be charged to the purchaser both immediately and into the future."

One year on

Hapless off-the-plan buyers that don't quiz developers about additional costs are discovering costs can rise 12 months after moving into a new building, which is when the builders' warranty expires for everything from lifts to spas.



Many costs of the five-star resort facilities are often not disclosed in standard owners' corporation contracts. **Artist's impression.**

Bashin warns the same services for ongoing maintenance and replacement can be twice the price depending on who the developer appoints to manage the building.

In some buildings cost allocation between tenants is easier because they are segregated depending upon residents' use of facilities.

For example, in Melbourne's landmark Eureka Tower there are 10 categories of services to which a resident can subscribe. That means only those residents that use the car park car stacker pay for the space, service and maintenance.

But the costs of other apartment services can be a bigger knock-out than the views from their penthouse.

Costly staff

For example, around the clock, front and side-door concierges will typically cost about $300,000 a year.

A building manager will require another $150,000.

A typical contract will include 12 categories of building management costs, such as manager's fees and auditing.

There are also 14 periodic service fees for lift maintenance, cleaning, essential services, such as fire protection, window cleaning and waste removal.

Property maintenance will include another 24 items, such as gym and pool maintenance, pest control, alarm monitoring and gardening and lawns.

A building manager is responsible for about six reports covering occupational health and safety, lift certification, insurance reports and a maintenance budget plan.

General expenses will cover everything from photocopying to legal costs and postage.

Buyers are usually aware of the administrative fund, which covers general day-to-day expenses, such as cleaning, utility bills and running expenses of the owners' corporation.

Sinking funds

But many are unaware of the existence and cost of sinking funds, which are for long-term capital expenses, repairs and maintenance, and unforseen expenses, such as structural damage.

McDonald says: "The purchaser needs to ensure that these costs are included in their budget – either as an owner occupier or as an investor. An assessment also needs to be performed in respect of expected future costs – both known and what may be expected."

Disputes between aggrieved tenants, owners' corporations, builders and management are constantly being heard by various courts and tribunals.

For example, a case before the Victorian Civil and Administrative Tribunal and involving a dispute about defective construction of a tennis court and swimming pool, problems with the roof and drainage issues took more five years and about $800,000 in damages to be resolve.

Catherine Aird, VCAT vice president, who described the proceeding as "long and tortuous", said the owners' corporation faced a legal cost blow-out bringing the action, drawing on cash reserves rather than raising levies against the members.

"This was done as the committee was confident of a settlement. Sadly, all funds have been exhausted and the owners' corporation has no other option than to raise $150,000 of further levies."

McDonald also urges buyers to consider the age of the building, the state of the lobby/entrance, lifts, compliance with regulations including fire services, access, security, the building materials used which may need to be maintained or replaced at a later time.

"Review the minutes, reports and financial accounts of the Owners' Corporation," he says.

Issues to consider include current cash balances, owners who are in arrears, past or present legal issues with other owners or contractors, pending or future capital commitments which may be required, including how they are going to be funded.