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FEATURED

Insight into property market trends

Depreciation data highlights changing habits

Producing tens of thousands of depreciation schedules Australia-wide has given BMT Tax Depreciation valuable insight into the property market and changing trends.

Recently, we've seen three main themes relating to the type, location and number of residential properties people are investing in.

Firstly, we've seen a 4.5 per cent increase in investors buying new properties. 30.9 per cent of all depreciation schedules BMT completed for the 2017/2018 financial year were for brand-new properties compared with 26.4 per cent in 2015/2016.

Influencing this change was an increase in the supply of new apartments on the market, particularly in metropolitan cities.

Of the schedules ordered in the 2017/2018 financial year, we identified a 4.5 per cent increase in investors purchasing units rather than houses over the same period.

Amendments to legislation which came into effect on the 1st of July 2017 restricting some deductions that can be claimed for second-hand residential investment properties were also factors in this change.

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Brand-new properties were unaffected by legislation changes to plant and equipment depreciation passed in 2017. As a result, investors are likely targeting these properties to optimise cash flow and maximise tax deductions.

For new properties built after the 1st of July 2017, BMT found investors an average of $12,268 in depreciation deductions in the first full financial year.

Despite this shift, investors haven't stopped buying second-hand properties. Of the schedules completed during 2017/2018, 30.6 per cent were for older properties built before 2003 and 16 per cent were for properties up to fifteen years old. BMT found an average of $6,201 in depreciation in the first full financial year for all these properties.

The remaining 22.5 per cent of schedules completed were for 'fairly-new' properties built between 2013 and 2017. BMT found an average of $10,190 in depreciation in the first full year for these properties.

Even with changes to depreciation legislation, our data shows there are still substantial deductions available for those who invest in older properties.

The table below outlines the results of schedule types requested during 2017/2018.

Requested schedule types

Property description	Construction dates	Percentage of total	Average first full year deduction
Old	Pre-1987	16.0%	$4,621
Pre-2003	1987-2003	14.6%	$5,849
Up to 15 years old	2003-end 2015	16.0%	$8,133
Fairly new	2015-2017	22.5%	$10,190
Brand-new	Built after 1st July 2017	30.9%	$12,268

2018_TA509

The depreciation deductions in this table have been calculated using the diminishing value method.

As the table shows, even investors who purchased a property constructed prior to 1987 could claim an average first full year deduction of $4,621 in depreciation. Overall, we found an average depreciation claim of $8,212 in 2017/2018.

Furthermore, of those properties affected by changes to depreciation legislation, i.e. second-hand properties where contracts were exchanged after 7:30pm on the 9th of May 2017, BMT found investors still had an average claim of $5,651 in 2017/2018.

Our data also indicates the majority of investors purchase a property in capital cities. 61 per cent of all schedules BMT prepared during the 2017/2018 financial year were for metropolitan areas, compared with 39 per cent regionally.

According to CoreLogic's January 2019 Home Value Index, regional areas offer an affordable entry point into the market with a median value of $377,422 and a gross rental return of 4.2 per cent. This may result in investors continuing to target regional areas in 2019.

BMT data shows 79 per cent of investors who purchased properties in metropolitan cities only invested in their local area. 52 per cent of those who live regionally also invest within their geographical comfort zone.

> "BMT found an average depreciation claim of $8,212 in 2017/2018."

When our staff speak to property investors, we always discuss their individual scenario, accounting for all properties they own.

In 2017/2018, 93 per cent of investors requested a schedule for just one property. This was up from 84 per cent in 2015/2016. In fact, the data shows just 6 per cent of enquirers owned two properties and 1 per cent owned three properties during 2017/2018.

Our data therefore continues to confirm that the vast majority of investors own just one property.

To learn about the 2017 depreciation legislation changes, visit **bmtqs.com.au/depreciation-changes**

To request a free depreciation estimate and discover what you can claim for your property, speak with our expert staff on **1300 728 726** or visit **bmtqs.com.au/estimate**

Common property depreciation explained

Shared assets in strata title lucrative for investors

A strata title is used when individuals own part of a property usually called a 'lot'. This is generally an apartment, unit or townhouse complex which shares ownership of common property including driveways, foyers and gardens.

The ownerships are combined through a legal entity called the owners corporation, commonly referred to as a body corporate. Strata title can include residential and commercial properties including units, apartments, townhouses, retail stores, retirement villages and more.

Strata title accounted for 54 per cent of BMT schedules ordered in 2017/2018, up from 49 per cent during the previous financial year.

Shared assets within strata property entitle investors to substantial depreciation deductions, calculated on their percentage of ownership.

BMT review the property's entitlements within the Strata Plan, Building Unit Plans and Plan of Subdivision to determine the exact percentage of ownership and capture every deduction.

When determining the value of common property assets for depreciation purposes, the value is governed by the owner's interest in the asset. As a result, these assets often fall into the low-value pool or qualify for an immediate write-off. This allows Quantity Surveyors to apply accelerated depreciation rates to most assets found in common areas.

The low-value pool allows investors to group qualifying assets into an accelerated depreciation pool, meaning greater deductions can be claimed sooner. In a strata title, if an owner's interest in a common property asset is valued less than $1,000, this asset can be pooled and claimed at a rate of 18.75 per cent in the year of purchase and 37.5 per cent each year thereafter.

If an owner's interest in an asset is less than $300, the asset qualifies for an immediate write-off and the full amount can be claimed in the first year.

As common property assets are depreciated based on an investor's portion of ownership, more assets fall into the low-value pool or qualify for immediate write-off. This means owners can benefit from improved cash flow sooner.

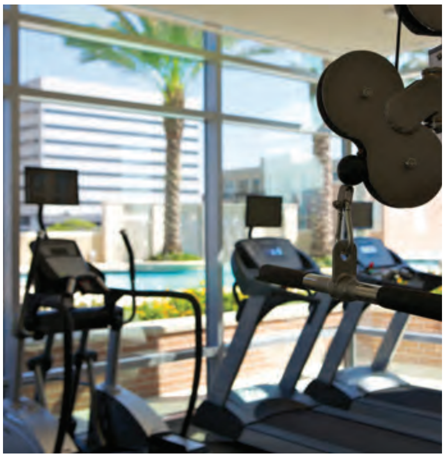
The below example displays a selection of common property assets the owner of a $595,000 two-bedroom, two-bathroom apartment could claim. It highlights the first and second year deductions based on the apportioned cost of the assets shown.

Common property depreciation explained

Common property asset	Apportioned value of the asset	Depreciation rate	First year deductions	Second year deductions
Lifts	$8,286	6.7%	$555	$518
Ventilation fans	$1,591	10%	$159	$143
* Carpet	$850	37.5%	$159	$259
* Hot water systems	$974	37.5%	$183	$297
* Intercom system assets	$997	37.5%	$187	$304
** Air conditioning	$208	100%	$208	$0
** Automatic garage door motors	$45	100%	$45	$0
** Gym assets	$225	100%	$225	$0
TOTAL	**$13,176**		**$1,721**	**$1,521**

2018_TA510

The figures in the table have been calculated using the diminishing value method
*These assets have been added to the low-value pool
**An immediate write-off has been applied to these assets



The owner can claim $1,721 in deductions from common property assets in the first year alone. They can also claim $1,521 the following year.

The gym assets in the example have an apportioned value less than $300, meaning the investor can claim the full amount in the first year. This is also the case for the air conditioning and automatic garage door motors.

The owner's portion of common property carpet, hot water systems and intercom system assets have a value less than $1,000, qualifying them to be grouped in the low-value pool with accelerated depreciation.

Other common property items which could be found include fire equipment, garbage bins, furniture, tiles, stairs, swimming pools, pool filters and chlorinators.

As all strata title properties contain different assets and have unique ownership arrangements, it is important deductions get apportioned correctly. To ensure accuracy it's best to obtain a depreciation schedule from a specialist Quantity Surveyor.

Scrapping boosts commercial property cash flow

Removed assets prove valuable for owners and tenants

Commercial properties are often renewed and transformed to suit the ever-changing needs of the industry they are in and their customers.

Scrapping occurs when removed assets and structural elements within a building have a remaining undeducted value. At the time of removal, the owner of the asset can claim that remaining value as an immediate deduction in that financial year.

Often overlooked, these valuable deductions apply to both removable plant and equipment assets (under division 40) and the fixed assets or structural capital works elements of a building (under division 43).

The deductions for structural or fixed assets are especially valuable when scrapping occurs. These assets are written off at a much lower rate over forty years at 2.5 per cent per year, often resulting in a substantial remaining undeducted value for the owner to claim in its entirety when removed.

Both commercial building owners and tenants can boost their cash flow with depreciation and capital works deductions when assets are being used. Therefore, both parties can claim scrapping deductions when assets are removed.

Owners can claim deductions for the building structure, any plant and equipment assets they own or fit-out they purchase and install. Meanwhile, commercial tenants can also claim deductions for fit-out they own from the starting date of their lease or from the date of purchase and installation. This includes assets such as desks, kitchens, carpet and partitions.

The following information is taken from a BMT Tax Depreciation Schedule completed for a recently purchased 400 square metre retail property.

Capital works deductions

Item	Original construction value	Yearly deduction	Remaining undeducted value
Cabling	$8,000	$200	$5,800
Plasterboard walls	$22,500	$563	$16,313
Suspended ceiling	$32,000	$800	$23,200
Total	**$62,500**	**$1,563**	**$45,313**

Plant and equipment assets

Item	Original value at purchase	First year deduction	Remaining undeducted value
Carpet	$28,000	$7,000	$21,000
Counters	$12,000	$2,400	$9,600
Lights	$16,000	$1,600	$14,400
Partitioning	$19,530	$1,953	$17,577
Shelving	$45,000	$8,438	$36,562
Signage – static	$4,200	$840	$3,360
Total	**$124,730**	**$22,231**	**$102,499**
Overall totals	**$187,730**	**$23,794**	**$147,812**

2018_TA511

Calculations are based on the diminishing value method for a business with over $10 million annual turnover who are not eligible for small business instant asset write-off rules. This is not a comprehensive list of all available deductions.

In the scenario, the owner of the property was updating the fit-out after owning the property for one year. The fit-out was installed eleven years ago by the previous owner.

As the example shows, the owner could claim $23,794 in plant and equipment depreciation and capital works deductions. After one year there is a total residual value of $45,313 for capital works and $102,499 for plant and equipment.

By claiming scrapping for the items removed, the owner can claim a total deduction of $147,812 in the year of the items' removal. They can also claim deductions for the newly installed fit-out.

Prior to removing any fit-out, it's crucial that assets have been properly assessed. Business owners and tenants should speak with a specialist Quantity Surveyor to ensure they don't miss out on any eligible deductions.

BMT provide comprehensive depreciation schedules and asset registers compliant with Australian Taxation Office regulations, meaning that deductions are detailed and evidenced correctly in the event of an audit.

To learn more about BMT's commercial capabilities visit **bmtqs.com.au/commercial-capability**

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RICS

BMT TOOLS

MyBMT helps manage your investment journey

It's never been easier to manage your depreciation and property investment needs, thanks to MyBMT.

The online portal has undergone significant development and is now a great place to do your research if you or your clients plan on buying another property, whether for investment or personal use.

Users can also access PropCalc, which calculates the real costs of owning a property. This tool helps determine the after-tax cash flow position of any prospective or existing property.

Using the Research and Insights tool you can also discover properties recently listed for sale or rent, view Census data and keep abreast of planning applications and new developments in the suburb a property is located.

The BMT Insurance tab also allows you to request an insurance quote to ensure your investment property is adequately covered.

MyBMT is a great tool to communicate key information about a property. Investors, Accountants and real estate professionals can add each other and use the portal to store invoices and receipts, record important details like the purchase price and settlement date, share depreciation schedules and more.

Property professionals also gain access to New to Rent, a complimentary tool which generates depreciation estimates for new listings and highlights the difference depreciation can make to their clients' cash flow.

To explore all MyBMT has to offer, visit **mybmt.bmtqs.com.au** and register today.

MORE FOR YOU

Are you underinsured?

Property insurance and depreciation

The 2018/2019 Banking Royal Commission's probe into the insurance sector brought to light widespread misconduct and breaches of the Insurance Code of Practice.

One issue that was raised was underinsurance, where policyholders were led to believe that their policies covered the full replacement of their properties but discovered their cover fell short when they made a claim.

Alarmingly, research from Insurance Australia Group Limited has found that one in twenty Australian homes are not insured and up to 30,000 home owners fail to renew every year.

An Insurance Council of Australia survey also found 83 per cent of Australians are underinsured for home and contents. For property investors, this means facing considerable losses and risking financial hardship in the case of major tenant damage or a natural disaster.

It's more important than ever to know the true replacement cost of your property and assets contained to ensure you are adequately covered.

While you may have known the replacement value of your property some time ago, construction costs fluctuate. This means your current insured value is easily outdated, putting you at risk of underinsurance.

An overinsured property can also lead to owners outlaying more money on higher premiums that provide unnecessary cover.

In the case of damage, investment property owners may be entitled to claim additional tax deductions on the building structure and contained assets.

If the owner receives an insurance payout, a balancing adjustment will need to be calculated for destroyed assets.

The balancing adjustment is determined by comparing the asset's termination value with its adjustable value at the time it was destroyed. The termination value is the amount received for the asset such as from the insurance payout while the adjustable value is the purchase cost of the asset minus its decline in value.

If the asset was used solely for income-producing purposes and the termination value is greater than the adjustable value, you must include the excess in your assessable income. If the termination value is less than the adjustable value, the difference is an allowable deduction.

In circumstances where no insurance claim is lodged, owners can claim the total undeducted value for assets removed and scrapped from within the property.

Often, there are still thousands of dollars of depreciable value left in destroyed assets which can be claimed immediately by property investors. It's important to contact a specialist Quantity Surveyor if assets are damaged as a site inspection may be required to determine replacement values.

The Royal Commission highlighted the importance of accuracy when it comes to property replacement costs and adequate insurance. Quantity Surveyors have the required skills to estimate construction costs.

For more information on replacement costs, contact the expert team at BMT Insurance on **1300 268 467** or visit **bmtinsure.com.au**

Discover the build cost of your next project

The BMT Construction Cost table is a useful guide to the cost of construction for different types of residential and commercial buildings.

To discover the build costs of your next project, adjust costs for various regions by multiplying the construction cost by the regional variations opposite. This will provide an approximate cost for the construction cost per square metre in your area.

Alternatively, you can download and calculate build costs using the BMT Cost Calc app at **bmtqs.com.au/cost-calc**

Regional variations

Hobart	90 - 120%
Canberra	92 - 115%
Melbourne	95 - 105%
Adelaide	95 - 108%
Sydney	100%
Perth	100 - 120%
Brisbane	95 - 115%
Cairns	110 - 130%
Darwin	110 - 130%

Construction type			Level of finish		
			Low	Medium	High
House		3br weatherboard project home, level block, single level, shelf design	$1,301	$1,461	$1,811
		3br brick veneer project home, level block, single level, shelf design	$1,391	$1,551	$1,856
		3br full brick project home, level block, single level, shelf design	$1,386	$1,546	$1,926
		4br weatherboard home, level block, single level, unique design	$1,856	$1,966	$2,461
		4br brick veneer home, level block, single level, unique design	$1,956	$2,051	$2,586
		4br full brick home, level block, single level, unique design	$2,200	$2,520	$2,740
		3br brick veneer project home, level block, two level, shelf design	$1,451	$1,606	$1,986
		3br full brick project home, level block, two level, shelf design	$1,506	$1,696	$2,086
		4br brick veneer home, level block, two level, unique design	$2,046	$2,316	$2,691
		4br full brick home, level block, two level, unique design	$2,240	$2,580	$2,820
		Architecturally designed executive residence	$2,940	$3,790	$5,340
Townhouse		2br, single level brick veneer townhouse, including allowance for common property	$2,030	$2,315	$2,615
		2br, 2 level brick veneer townhouse, including allowance for common property	$2,085	$2,355	$2,745
		3br, single level brick veneer townhouse, including allowance for common property	$2,010	$2,295	$2,585
		3br, 2 level brick veneer townhouse, including allowance for common property	$2,065	$2,415	$2,755
Unit		3 level walk-up unit complex, concrete structure, ground floor parking	$2,140	$2,300	$2,800
		3 level walk-up unit complex, concrete structure, basement parking	$2,095	$2,225	$2,755
		4-8 level unit complex, including lift, concrete structure, ground floor parking	$2,443	$2,633	$3,203
		4-8 level unit complex, including lift, concrete structure, basement parking	$2,395	$2,585	$3,155
		8 or more level unit complex, including lift and basement car parking	$2,545	$2,895	$3,695
Commercial		1-4 level open plan offices, including A/C and lifts, excluding fit out	$2,200	$2,460	$2,900
		4-8 level open plan offices, including A/C and lifts, excluding fit out	$2,555	$2,745	$3,225
		8 levels and over, including A/C and lifts, excluding fit out	$3,650	$3,860	$4,040
Industrial		High bay warehouse, standard configuration, concrete floor, metal clad	$1,030	$1,163	$1,255
		High bay warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$1,265	$1,336	$1,489
Retail		Suburban shopping mall area including A/C	$2,755	$2,875	$3,225
		Supermarket, including A/C, excluding fit out	$1,745	$1,865	$2,095
Hotel / motel		Single level boutique motel, including A/C, guest facilities	$3,355	$3,855	$5,105
		Single level tavern/hotel, including A/C, excluding loose item fit out	$2,830	$3,380	$4,080

The above rates are exclusive of Goods and Services Tax (GST). Please visit **bmtqs.com.au** for more information.

The construction costs are average prices in a metropolitan area and should be adjusted with reference to specific conditions. They are not intended to be relied upon or used for tendering or pricing variations. Construction costs include costs of labour and materials, waste, hoisting, fixing in position and a profit allowance based on prevailing market conditions but exclude any GST, costs of land, demolition and any work outside the footprint of the building.

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