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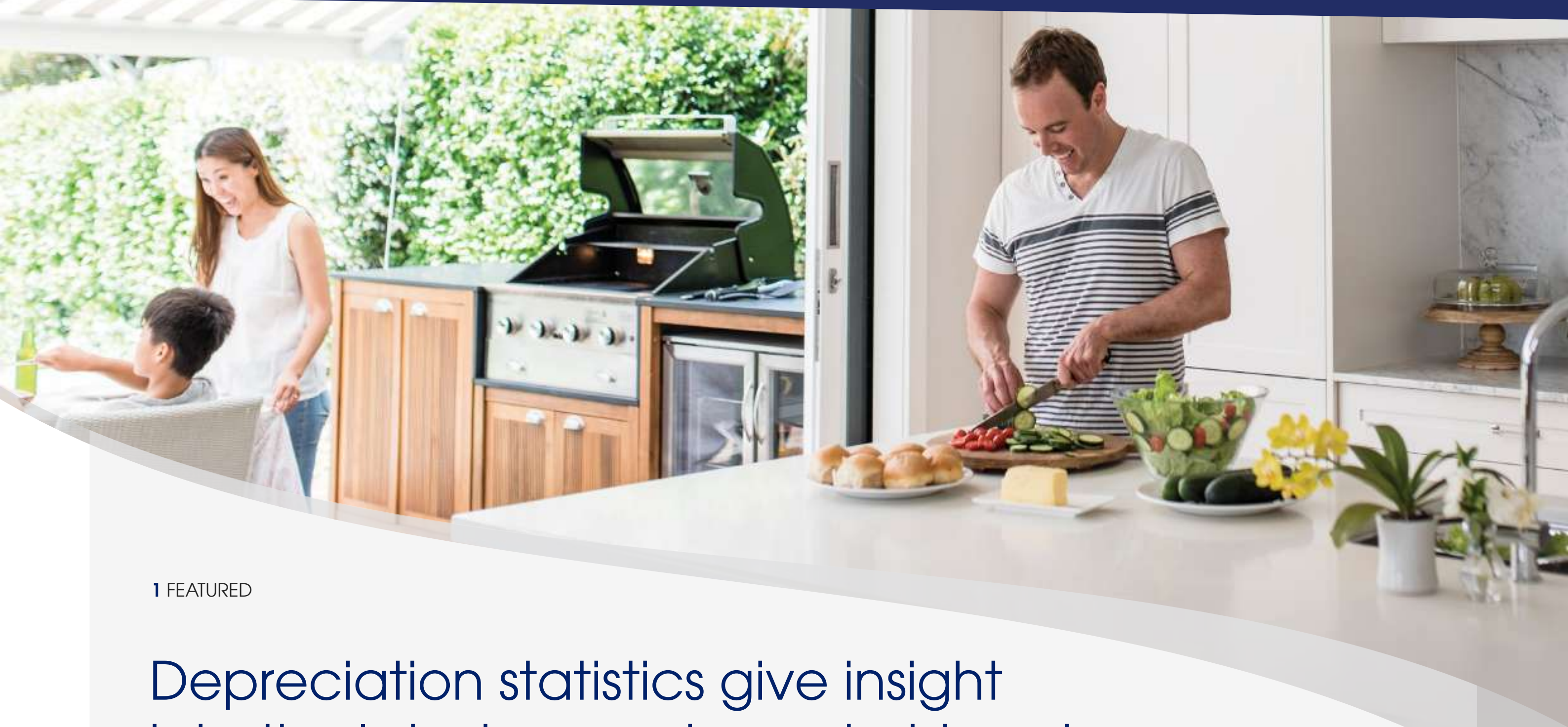

1 FEATURED

Depreciation statistics give insight into the latest property market trends

The Australian property market has proved resilient throughout the pandemic. Almost 460,000 property transactions took place across the country between January 2020 and January 2021. Despite 2020's travel and social distancing restrictions, the transaction figures are comparable with the prior five years.

Three interesting themes also emerged last year.

Shift towards internal migration

The first was around 'internal migration', the trend to move from cities to regional areas. As the effects of lockdowns were felt, city dwellers (primarily in Melbourne and Sydney) packed up and headed for regional areas.

The trend was evident in property market statistics. Amid the pandemic, four out of eight of the capital cities experienced declines in house prices, but only two regional areas were impacted. It has taken capital city housing values more than a year to perform against the regional markets.

It wasn't just owner-occupiers who realised the benefits of regional property. PIPA's 2020 Annual Investor Sentiment Survey reported that 22 per cent of property investors find regional markets the most appealing, up from 15 per cent in 2019.

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BMT Tax Depreciation
QUANTITY SURVEYORS

This preference is also apparent through the tax depreciation schedules ordered throughout FY 2020/21.

Compared to the previous financial year, there was a percentage rise of 3.73 per cent in tax depreciation schedules ordered for homes in regional areas. Meanwhile, 68.45 per cent of total schedules ordered were for properties in capital cities. Although this is still higher than their regional counterparts, it's a clear drop from the previous financial year (72.18 per cent).

Capital city vs regional tax depreciation schedules ordered

Property location	2019-2020	2020-2021
Capital city	72.18%	68.45%
Regional	27.82%	31.55%

But one factor that has remained consistent across both geographies is the beneficial depreciation deductions available.

The average FY 2020/21 first full year depreciation claim for properties in capital cities came to $8,227, while the regional property average first full year depreciation deduction came to $9,847. Much of this comes down to the size and type of property available in regional areas compared to metropolitan.

Upsizing from apartments to houses

The divergence between unit and house markets has also been an interesting element of the pandemic-influenced property market.

Some analysts predict an overwhelming surge of apartment stock in the Sydney and Melbourne CBDs, as investors look to alternatives due to reduced rental demand. While recent reports have uncovered that for the 12 months until January 2021, 74.2 per cent of property transactions were for houses, up from 73.2 per cent the previous year.

An evaluation of BMT Tax Depreciation schedule data revealed that investors ordering schedules are following this trend. The number of residential schedules completed for houses in FY 2020/21 was up 2.87 per cent compared to the previous financial year which means a drop in the percentage of unit schedule orders.

House vs unit tax depreciation schedules ordered

Property type	2019-2020	2020-2021
House	51.34%	54.21%
Unit	48.66%	45.79%

Despite the preference for houses over units, data shows that units can produce higher deductions. The average first full year deduction from schedules completed for houses in FY 2020/21 was $7,705, while the average first full year deduction found for units was $9,716.

Property prices driven by home buyers, not investors

Soaring property prices have dominated the media for the past 12 months, with CoreLogic's national home value index for March 2021 rising at its fastest pace since 1988.

The latest housing boom was originally driven by owner-occupiers. ABS data revealed that in March 2021, $22.4 billion of new housing finance came from owner-occupiers, but investors only made up $7.8 billion.

However, investor lending is bouncing back. ABS data reported that the value of investor loan commitments rose 116 per cent in the year to May 2021, after falling to a 20-year low in May 2020.

But what impact has investor buying had on property prices?

The following table highlights the difference between the mean (or average) dwelling values across the country, compared to the mean purchase price of properties that BMT completed depreciation schedules on in the last financial year. All of the BMT properties are for investors.

	Mean property price from BMT Tax Depreciation Schedules		Mean ABS dwelling price
	House	Unit	
NSW	$747,731	$746,360	$1,011,100
QLD	$541,847	$497,200	$586,200
ACT	$640,180	$476,644	$809,600
VIC	$631,075	$575,300	$834,600
TAS	$442,100	$360,530	$528,400
NT	$542,500	$396,960	$480,400
SA	$470,252	$437,370	$524,000
WA	$513,290	$491,940	$582,800

Mean ABS dwelling price as at the March 2021 quarter. Mean property price from BMT Tax Depreciation Schedules are for properties where schedule order and property settlement occurred in FY 2020/21.

In most states and territories (all except houses in Queensland and the Northern Territory) the ABS mean dwelling price for the March 2021 quarter exceeded the corresponding mean BMT Tax Depreciation Schedule house and unit price for FY 2020/21.

From this data, it can be argued that investor-buying isn't the main contributor to rising dwelling prices. However, we wouldn't be surprised to see investor interest in a performing market continue to grow in coming months.

Are you a property investor or in the business of renting property?

When an investor owns multiple investment properties that provide their main source of income, it could be assumed they are operating a real estate-style business. However, simply owning numerous investment properties is unlikely to constitute a business operation.

So, what distinguishes someone who has several investment properties from someone who runs a business by owning property? The Australian Taxation Office (ATO) uses eight key indicators to determine the difference. These include:

1. whether the activity has a significant commercial purpose or character
2. if the property owner has more than just an intention to engage in business
3. whether the owner has a purpose of profit as well as a prospect of profit from the activity
4. if there is repetition and regularity of the activity
5. how and if the activity is of the same kind and carried on in a similar manner to that of the ordinary trade in that line of business (real estate management)
6. whether the activity is planned, organised and carried on in a business-like manner
7. the size, scale and permanency of the activity
8. if the activity is better described as a hobby, form of recreation or sporting activity.

The indicators are taken from Tax Ruling 97/11. While this ruling refers to primary production, the indicators also apply to activities of a non-primary producing nature – like property investing. When making this assessment, the property owners involved usually need to request a private tax ruling for their unique scenario.

In practice: carrying out the business of renting properties

Lewis and Natasha own a total of 15 rental properties together. Of these, 10 are owned under a ‘joint-tenant’ arrangement where their shares are equal, and they are ‘tenants in common’ for the remaining five properties, owning different percentages.

They both actively manage the properties and spend a lot of time each week doing so, approximately 25 hours each.

They interview prospective tenants, conduct inspections, manage the financial planning, collect all rents and attend to the repairs and maintenance requests themselves. The rent received is their only source of income.

After requesting a private tax ruling, Lewis and Natasha are classed as carrying on the business of renting property. This is demonstrated through:

- the size and scale of their rental property operation
- the intention of their operation
- the time each spends on their rental property activities
- their personal involvement in the management of the properties
- the business-like manner in which the activities are carried out.

What happens if you are in the business of renting property?

Being in the business of renting property has its added benefits, including further tax deductions such as expenses relating to travel, property research, property-specific education like real estate seminars and work-related expenses like mobile phone usage.

This is all in addition to the regular tax deductions available to property investors, from interest repayments and insurances to land taxes and property depreciation.

If the property is considered part of a business operation by the ATO, 2017’s legislation changes to depreciation may not apply. This means the investor won’t be affected by laws that disallow them from claiming depreciation on second-hand plant and equipment assets.

Depending on the situation, the small business entity tax concessions could also be available, including the simplified depreciation rules and temporary full expensing. However, the small business capital gains tax discounts won’t apply as a residential property is not classed as an active asset and the main use is to gain rent.

To maximise depreciation claims and maintain full compliance, BMT take all varying business scenarios into account when preparing depreciation schedules for those in the business of renting property. This is especially important today due to all government stimulus incentives currently available to businesses.

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AVAA Auctioneers and Valuers Association of Australia

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Latest release of ATO data shows property investors could be under-claiming

First home buyer schemes, immediate asset write-offs for business owners, Job Keeper; it could appear that the Government stimulus incentives of 2020 were directed at any beneficiary other than property investors.

However, property investors need to remember their ability to boost their fiscal bottom line through existing tax deductions. The latest statistics released by the Australian Taxation Office (ATO) have revealed what investors are claiming from the deductions available.

According to the ATO, the average interest repayment tax claim made by property investors in FY 2018/19 was $9,640, and the average body corporate fee claim was $2,448. The combined land tax, property management fees and insurance average claim came to $3,880.

Depreciation, unlike those already mentioned, doesn't require an expense to claim. It is the natural process of wear and tear, therefore reducing tax liabilities for investors by thousands without any outlay.

The ATO numbers show that on average, depreciation is the second biggest tax deduction after investment loan interest repayments.

According to the ATO data released in June 2021, the average investor depreciation claim in FY 2018/19 was $3,885. This reported average was made up of $2,571 in capital works allowance and $1,314 in plant and equipment depreciation deductions.

Taking a deeper look into the deductions achieved by BMT Tax Depreciation Schedules during this same period provides further insights. The average depreciation claim found by BMT in FY 2018/19 was $8,260 – $4,300 more than the ATO average.

These numbers alone prove the importance of not discounting capital works deductions which can be claimed at a yearly rate of 2.5 per cent. This average also includes properties impacted by the 2017 legislation changes, demonstrating that plenty of plant and equipment deductions are still there to be claimed for eligible assets.

In more good news, BMT data trends suggests that averages will continue to progressively rise. BMT's FY 2019/20 average depreciation claim came to just over $8,670, while the average claim for FY 2020/21 came to $8,940.

The results prove the importance of having a tax depreciation schedule prepared by a specialist. BMT's team conduct physical site inspections and apply all relevant legislation to ensure deprecation claims are maximised and full compliance is maintained.

To start maximising depreciation deductions, contact BMT on **1300 268 628.**

Make a further $215 each fortnight with one step

Investors don't need to wait an entire year to claim thousands in deductions from their rental properties. They can instead routinely increase their cash flows throughout the financial year with one simple step.

A Pay as You Go (PAYG) withholding variation, previously known as a Section 221YD variation, allows a person to change the amount of tax withheld by their employer.

A downward PAYG withholding variation reduces the amount of PAYG tax withheld as it accounts for additional tax deductions, like tax-deductible expenses and depreciation available from an investment property. A property investor may do this to get more cash in their pocket regularly, rather than waiting every 12-months for their tax return.

On the other hand, an upward PAYG variation increases the amount of tax paid each pay cycle. This could be an option for property investors who own a positively geared investment property and want to avoid a big tax bill come lodgement time.

The most common PAYG withholding variation is a downward variation. Here is an example of how this can work:

PAYG withholding downward variation

Sasha earns an annual salary of $65,000 from her employer, paid fortnightly. She owns a rental property and estimates that her property's overall annual loss will be $17,000 (rental income **minus** expenses). Depreciation makes up $10,000 of that total.

When applying a PAYG downward variation, her estimated taxable income will be $48,000 ($65,000 - $17,000). Sasha can apply for a PAYG variation to have her tax withholding rate based on the estimated $48,000. If the application is approved she will pay $213 less in tax per fortnight.

To create a PAYG withholding variation, an application must be made. This application needs to be approved by the ATO before any variation can be applied.

Lucrative deduction supports investment in crucial sectors

The pandemic has highlighted just how 'essential' essential services are, particularly those focussed on health and wellbeing. To deliver these services to the country, continued investment into the buildings and infrastructure required for their operations is vital.

There's no set definition of 'essential services' in the pandemic context, instead essential service descriptions are provided to align with the relevant government measures and definitions.

Some key essential services aligned to the pandemic context include:

- healthcare
- pharmaceutical services
- grocery stores that predominately sell food.

Healthcare

While the Australian Government usually funds most of the spending for medical services, and states and territories fund most community health services, private sector investment is still vital in providing the funds to support the infrastructure required for some of these services.

The healthcare sector is enormous, covering pharmaceuticals, biotech, medical equipment, facilities and more. The great diversification benefits and steady growth within the sector are what make it so attractive to domestic and international investors alike.

JLL recently estimated that the value of real estate in the Australian healthcare sector is between $95 and $105 billion. They also reported that healthcare property yields are expected to fall this year as investors become more attracted to the sector. BMT's data also showed a 5.5 per cent increase in the number of tax depreciation schedules for private hospitals in the last financial year.

Pharmaceutical services

Growth in healthcare expenditure only looks set to accelerate given Australia's aging population and recent pandemic-induced demand.

There are over 5,700 pharmacy businesses across Australia that hire more than 64,000 employees. A recent analyses conducted by IBISWorld evaluated the period between 2016 and 2021 and found that pharmacies in Australia hold an annualised market growth rate of 2.6 per cent. Meanwhile, the market for tenanted pharmacy investments has been in hot demand in 2021, with multi-million-dollar deals occurring in recent months.

Food retail

Many speciality retail buildings have had a tough time throughout the pandemic, but demand for essential supermarkets is still evident and on investment radars.

Investors continue to favour these non-negotiable retail assets that aren't as easily replaced through online traders. This comes as no surprise with big players like Coles reporting that their 2020 full-year sales revenue increased by 6.9 per cent to $37.4 billion.

The smaller players in the supermarket industry also prove their case as secure and stable tenants. At the end of the 2019 calendar year, IGAs, fresh-food stores and other independent grocers made up 28.2 per cent ($29.1billion) of the total grocery market dollars. Interestingly, the number of tax depreciation schedules BMT prepared for food retail stores in FY 2020/21 doubled those ordered in FY 2019/20.

Investment is fundamental to the growth of these sectors, but the required tangible property doesn't come cheap and the market isn't always easy to enter. Borrowing money to invest in commercial assets is difficult and complicated as banks see an increased element of risk compared to residential.

However, on the positive side there are a variety of tax deductions available to improve after-tax cash flow. Not only can commercial property owners claim taxable expenses like interest repayments, insurances and property management fees, but they can also claim depreciation on the building's structure and the fixtures they own in the property.

A commercial property's tenant often installs their own fit-out, but there are still plenty of assets that the building owner can commonly claim that are part of the structural fit-out. Examples are hot-water systems, air-conditioning systems, toilets and light fixtures.

The following table estimates just how much in depreciation deductions a commercial building owner could expect from their property's structure and fixtures.

Essential service depreciation

Property type	First year deductions	Cumulative five-year deductions
GP clinic	$76,581	$325,740
Private hospital	$193,603	$753,039
Pharmacy	$24,772	$94,665
Small grocery store	$88,861	$354,781
Large Supermarkets	$140,970	$636,886

Commercial property owners must consult with a specialist quantity surveyor if they are wanting to claim all depreciation deductions available to them. The specialist will prepare a tax depreciation schedule that will produce the highest deductions and apply industry-specific legislation to ensure compliance is maintained.

To learn more about BMT's commercial process, contact their team on **1300 268 628** today.

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	95 - 120%
Canberra	92 - 120%
Melbourne	95 - 105%
Adelaide	95 - 108%
Sydney	100%
Perth	98 - 120%
Brisbane	95 - 115%
Cairns	110 - 130%
Darwin	110 - 135%

Construction type		Level of finish (per m²) Low	Medium	High
House	3BR weatherboard project home, level block, single level, shelf design	$1,440	$1,612	$1,993
	3BR brick veneer project home, level block, single level, shelf design	$1,535	$1,709	$2,041
	3BR full brick project home, level block, single level, shelf design	$1,528	$1,703	$2,116
	4BR weatherboard home, level block, single level, unique design	$2,040	$2,159	$2,696
	4BR brick veneer home, level block, single level, unique design	$2,147	$2,251	$2,832
	4BR full brick home, level block, single level, unique design	$2,437	$2,784	$3,024
	3BR brick veneer project home, level block, two level, shelf design	$1,600	$1,768	$2,180
	3BR full brick project home, level block, two level, shelf design	$1,659	$1,866	$2,289
	4BR brick veneer home, level block, two level, unique design	$2,245	$2,538	$2,946
	4BR full brick home, level block, two level, unique design	$2,482	$2,850	$3,110
	Architecturally designed executive residence	$3,294	$4,216	$5,898
Townhouse	2BR single level brick veneer townhouse including allowance for common property	$2,257	$2,566	$2,892
	2BR 2 level brick veneer townhouse including allowance for common property	$2,317	$2,610	$3,033
	3BR single level brick veneer townhouse including allowance for common property	$2,236	$2,545	$2,859
	3BR 2 level brick veneer townhouse including allowance for common property	$2,295	$2,675	$3,044
Units	3 level walk-up unit complex, concrete structure, ground floor parking	$2,376	$2,550	$3,093
	3 level walk-up unit complex, concrete structure, basement parking	$2,328	$2,502	$3,044
	4-8 level unit complex, including lift, concrete structure, ground floor parking	$2,714	$2,919	$3,537
	4-8 level unit complex, including lift, concrete structure, basement parking	$2,654	$2,859	$3,478
	8 or more level unit complex, including lift and basement car parking	$2,816	$3,196	$4,064
Commercial	1-4 level open plan offices, including A/C & lifts, excluding fit out	$2,447	$2,728	$3,206
	4-8 level open plan offices, including A/C & lifts, excluding fit out	$2,837	$3,044	$4,092
	8 levels and over, including A/C & lifts, excluding fit out	$4,058	$4,286	$4,481
Industrial	High Bay Warehouse, standard configuration, concrete floor, metal clad	$1,165	$1,316	$1,420
	High Bay Warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	$1,431	$1,512	$1,685
Retail	Suburban shopping mall area including A/C	$3,056	$3,187	$3,567
	Supermarket, including A/C, excluding fit out	$1,936	$2,067	$2,317
Hotels/motels	Single level boutique motel including A/C, guest facilities	$3,765	$4,308	$5,665
	Single level tavern/hotel including A/C, excluding loose item fit out	$3,142	$3,739	$4,498

The above rates exclude goods and services tax (GST). Please visit **bmtqs.com.au** for more information.

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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.

Sydney
Level 33, 264 George Street
Sydney NSW 2000

Parramatta
Level 14, 3 Parramatta Square,
153 Macquarie Street Parramatta
NSW 2150

Brisbane
Level 7, 320 Adelaide Street
Brisbane QLD 4000

Gold Coast
Suite 30610, Level 6 Southport
Central 3, 9 Lawson Street
Southport QLD 4215

Newcastle
19 Brunker Road
Broadmeadow NSW 2292

Melbourne
Level 50, 120 Collins Street
Melbourne VIC 3000

Darwin
Level 1, Paspalis Centrepoint
48-50 Smith Street
Darwin NT 0800

Perth
Level 28, 140 St Georges Terrace
Perth WA 6000

Cairns
181 Mulgrave Road
Cairns QLD 4870

Canberra
Level 5, 15 Moore Street
Canberra ACT 2600

Adelaide
Ground Floor, 121 King William
Street, Adelaide SA 5000

Hobart
Hobart Corporate Centre
Level 3, 85 Macquarie Street
Hobart TAS 7000

1300 268 628 | maverick@bmtqs.com.au | bmtqs.com.au