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Groundbreaking BMT data unveils property trends

Despite interest rate increases, 2023 has been favourable for property investors, with double digit rental increases in most parts of Australia. Recent stability in the vacancy rate indicates that conditions are starting to balance out for tenants in some areas.

In April, rental property availability in Australia hit an all-time low, but has subsequently increased. Despite rental listings still being 33.3% below the long-term average (primarily driven by Sydney and Melbourne), most capital cities are now witnessing an increase in rental listings over the course of the year.

Property investors still maintain a strong proportion in all markets with investor lending making up 33.5% of housing loans as of May 2023, an increase from 32.7% in the previous month.

BMT's examination of data from completing more than 800,000 depreciation schedules uncovers further significant trends that contribute to the understanding of investor behaviour in the current property market.

Trend 1: Regional areas gather momentum

Regional areas of Australia have caught the attention of property

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BMT Tax Depreciation
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investors for a multitude of reasons, including lower property prices compared to major cities, potential for capital growth, and lifestyle.

The COVID-19 pandemic and changing work patterns prompted many individuals and families to relocate to regional areas in recent years. This shift led to a burst in demand for housing in regions, which in turn has increased interest from property investors.

BMT's data supports this, with Table 1 showing a 5.66 per cent increase of regional tax depreciation schedules ordered for investment properties between FY 2019-20 and FY 2022-23 (up to 33.48% from 27.82%).

While this surge of interest has since moderated, government initiatives and infrastructure developments continue to attract property investors to regional areas. Such initiatives include investment in transport infrastructure, healthcare, education, and other amenities aimed at stimulating regional growth. Table 1 shows that demand for tax depreciation schedules in regional areas is slowing but still trending upwards.

Table 1: Capital city vs regional tax depreciation schedules ordered

Property location	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Capital city	72.18%	68.45%	67.71%	66.52%
Regional	27.82%	31.55%	32.29%	33.48%

Trend 2: Home trumps investment – People spend more on their own turf

The amount an investor will spend on purchasing an investment property compared to a primary place of residence varies, depending upon their financial situation, investment strategy, and market conditions. Generally, people may allocate more of their financial resources towards purchasing or improving their primary residence, considering it as a place to live and create a comfortable living environment for themselves, while investment properties are typically chosen with the goal of generating income or capital appreciation.

This is supported by the BMT data shown in Table 2, which shows data from two years: 2021 (mid-pandemic) and 2023 (post-pandemic). Specifically, it shows that in both years, the mean price of investment properties across almost all states is significantly lower than the mean dwelling price (both owner occupied and investment properties). While almost all prices are rising, the percentage by which dwelling prices have increased is larger than the investment price increase in general. From this data alone, it can be argued that investor-buying isn't the main contributor to rising dwelling prices.

Table 2: Mean investment property price vs mean dwelling price

	As at March 2021			As at March 2023		
	Mean investment property price*		Mean dwelling price** (\$)	Mean investment property price*		Mean dwelling price** (\$)
	House (\$)	Unit (\$)		House (\$)	Unit (\$)	
NSW	916,418	807,125	1,011,100	952,115	843,643	1,150,400
QLD	621,337	550,003	586,200	642,413	555,193	752,200
ACT	758,686	494,668	809,600	812,269	527,304	951,800
VIC	712,786	596,500	834,600	769,707	602,189	898,300
TAS	508,957	390,496	528,400	593,583	431,385	655,800
NT	568,020	427,130	480,400	557,501	396,987	501,100
SA	487,702	433,696	524,000	531,494	484,282	664,300
WA	589,968	508,393	582,800	541,229	465,269	651,700

*Mean investment property prices are taken from BMT Tax Depreciation schedules for properties where schedule order and property settlement occurred in FY2020-21 and FY2022-23.

**Mean dwelling price according to Australian Bureau of Statistics as of the March 2023 quarter.

Trend 3: Owners converting their homes to investment properties

During the last financial year, there was a noticeable surge in tax depreciation schedules prepared for people who chose to convert their homes into investment properties – marking a reversal from the prior year which fell significantly. There could be several reasons for this.

Low vacancy rates, elevated rental rates, and attractive yields are creating a favourable market, which could be compelling property owners to seize the opportunity and capitalise on the prevailing conditions, converting their primary place of residence into an investment when upgrading, rather than selling.

Table 3: Homes converted to investments

Year	No. converted
FY 2018-19	11,666
FY 2019-20	11,935
FY 2020-21	10,656
FY 2021-22	9,233
FY 2022-23	11,111

Trend 4: Houses reign supreme

Analysis of BMT data reveals a shift in preference from units to houses, with a decline of 7.6 per cent in the number of schedules ordered for units from FY2019-20 to FY2022-23 (Table 4).

The rising demand for work-from-home options and spacious living has driven tenants to seek houses that offer flexible setups, dedicated home offices, outdoor spaces, and proximity to nature. These factors explain the shift in preferences towards houses.

Table 4: House and unit tax depreciation schedules ordered

Year	House	Unit
FY 2019-20	51.2%	48.8%
FY 2020-21	54.2%	45.8%
FY 2021-22	56.5%	43.5%
FY 2022-23	58.8%	41.2%

Overall, the rental market in Australia is experiencing a period of adjustment and rebalancing, with regional areas gaining momentum and tenants seeking houses with desirable features.

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Proof that depreciation still applies to second-hand properties

People are frequently mistaken in assuming that older properties lack depreciation deductions. It's important to clarify that this is incorrect. Older properties, just like newer ones, can still qualify for depreciation deductions.

While it's true that older properties may have less depreciation compared to brand new properties, there are many scenarios where owners of older properties can benefit from depreciation deductions. For instance, if the property has undergone renovations or improvements by current or previous owners, the cost of those improvements can be depreciated over their useful life.

In 2023, investors still lack clarity regarding the modifications made to Australia's depreciation legislation in 2017, which eliminated the ability to claim depreciation on previously used plant and equipment assets in residential investment properties.

To this day, many property investors don't realise that qualifying capital works deductions – which typically make up 85-90 per cent of a depreciation claim – are unaffected, and that new plant and equipment assets can also be depreciated. The result is that numerous owners of older investment properties overlook the extent of what they can rightfully claim.

Let's look at the evidence.

Data from BMT Tax Depreciation schedules completed in financial year 2022-23 revealed impressive deductions for all property types.

In financial year 2022-23, BMT found owners of brand-new properties an average first full financial year depreciation claim of \$15,234. In the same year, BMT found owners of old investment properties an average first full financial year depreciation claim of \$5,126.

While this may seem low in comparison, this claim was found in properties with a construction completion date of 1987 and prior, which means that properties more than thirty-five years old without any qualifying capital works deduction for the original build are still generating a yearly deduction of greater than five thousand dollars.

'Fairly new' properties built between 2016 and 2020 had a higher average first full financial year deduction of \$7,944.

The overall total average claim for all properties was \$8,925 in the first full financial year.

Table 1 demonstrates the average first full year depreciation claim for properties with a wide range of construction completion dates which were prepared by BMT in financial year 2022-23.

Table 1: Claims found for properties of different ages

Requested schedule types	
Construction dates	Average first full year deductions
Pre –1987	\$5,126
1987 – 2002	\$5,562
2003 – 2015	\$6,823
2016 – 2020	\$7,944
2020 – 2022	\$15,234
All	\$8,925

Investors who lack a comprehensive on-site inspection of their rental property are unlikely to be maximising their potential for depreciation claims.



Completing site inspections in second-hand properties provides an opportunity for investors to claim every deduction available.

There are many hidden tax deductions in an investment property, such as wiring, plumbing and even renovations completed by previous owners. By undertaking a thorough site inspection, it becomes possible to identify all eligible assets and accurately determine their depreciable values.

This is especially important in second-hand properties. BMT data reveals that 66 per cent of investment properties have undergone a qualifying addition or renovation, which can only be determined after a thorough site inspection.

A site inspection also allows for detailed documentation of the property's condition and assets, which becomes crucial in substantiating the depreciation claim and defending it in the case of an Australian Taxation Office audit.

Both the Australian Institute of Quantity Surveyors (AIQS) and the National Tax and Accountants' Association (NTAA) support the requirement for site inspections. They know that site inspections help in providing accurate information required for depreciation calculations and prevent any errors or inconsistencies in the claim.

Investors who would like to maximise the deductions within their new or existing investment property are encouraged to call BMT on **1300 728 726** or visit **bmtqs.com.au**.

Co-owned properties with split schedules accelerate deductions

Co-ownership, or joint ownership, involves multiple individuals or entities jointly owning an investment property and sharing the associated costs, responsibilities, and returns. This approach allows investors to pool their resources, knowledge, and expertise to navigate the property market together. It also enables investors to mitigate risk by sharing the expenses associated with acquiring and maintaining a property, while also gaining access to a larger borrowing capacity.

When a property is jointly owned and used as an investment, depreciation can be claimed by each co-owner based on their ownership share.

The capital works deduction (Division 43), the claim on the structural components of the property, is calculated based on the construction commencement date and building purpose. Plant and equipment (Division 40) covers the removable assets within the property. Each co-owner can claim depreciation on their share after a quantity surveyor has determined their individual values and appropriate effective lives.

Depreciation legislation allows co-owners to split an asset's value by ownership percentage before making their claims. The distribution of an asset's value based on ownership percentages first will increase the number of assets for which investors are eligible for an immediate write-off or low-value pooling. This results in an accelerated rate of depreciation that will yield the owners increased deductions in the earlier years of ownership.

Owners of one investment property can claim an immediate write-off for assets with an opening value of \$300 or less. When an investment property is co-owned in a 50:50 split of two parties, a split depreciation schedule allows the owners each to claim an immediate write-off for items where their interest in the asset is \$300 or less.

The same method can be used when applying low-value and low cost pooling. When an investor's interest in an asset is less than \$1,000, these items will qualify to be placed in a low-value pool. This allows these assets to be claimed at an increased rate of 18.75 per cent in the first year regardless of the number of days owned, and 37.5 per cent from the second year onwards. In scenarios where ownership is split 50:50, by calculating an owner's interest in each asset first, the owners will qualify to pool assets that cost less than \$2,000 in total to the low-value pool.

A split schedule displays the deduction available to each owner per year based on their percentage of ownership of each asset. The table below shows how a split schedule will increase deductions using two typical assets.

Having a correctly prepared split depreciation schedule is important to ensure all owners are claiming the correct amounts they're entitled to, especially in scenarios where an asset is not owned with an even 50:50 split by each party.

To learn more about the deductions within a jointly owned investment property, call BMT on **1300 728 726** or request a quote at bmtqs.com.au/apply-online.

Without split report - 50/50 interest					
Asset	Total opening cost	Depreciation rate	Total first year deductions	Deductions per owner (Year 1)	Deductions per owner (Year 2)
Oven	\$1,624	16.67%	\$271	\$135	\$113
Rangehood	\$468	18.75% first year, 37.5% second year onwards	\$88	\$44	\$71
With BMT split report - 50/50 interest					
Asset	Total opening cost	Opening cost per owner	Depreciation rate	Deductions per owner (Year 1)	Deductions per owner (Year 2)
Oven	\$1,624	\$812	18.75% first year, 37.5% second year onwards	\$152	\$248
Rangehood	\$468	\$234	100% immediate write-off	\$234	\$0

Start using your free MyBMT account today

As a property investor, property manager or accountant, you're juggling various responsibilities related to property management and financial matters. From overseeing tenants and handling ongoing property maintenance to looking after financial records and tax obligations, it can be a lot to keep track of.

This is where MyBMT comes in. MyBMT is an innovative portal developed specifically for property managers, accountants, and investors like you, with the aim of simplifying property investment and depreciation management.

MyBMT offers a wide range of features. Existing tax depreciation schedules can be kept up to date by adding details of renovations or improvements. Effortlessly track property income and expenses, upload files, photos, and receipts to share with your accountant and wider property investment team. This centralised system eliminates the need for cumbersome physical records and promotes seamless collaboration.

But that's not all. MyBMT also offers various insurance quotes through BMT Insurance. Whether you need house, contents or landlord insurance, you can conveniently obtain quotes through the portal.

For those in search of their next investment property, MyBMT has you covered as well. The platform includes powerful features like PropCalc and a Research and Insights tool. With PropCalc, you can easily calculate the after-tax holding costs of any property, enabling you to make informed investment decisions. Additionally, the Research and Insights tool provides access to current market data, nearby planning applications, and even estimates a current valuation for a property that has had a depreciation schedule prepared.

And the best part? All of these invaluable features and tools are available at no cost.

So why wait? Start optimising your property management today by activating your MyBMT account. Simply visit mybmt.com.au/register and begin experiencing the benefits.



2023 Federal Budget supports small businesses with energy incentive bonus

Small businesses were greatly affected by the COVID-19 pandemic. Lockdowns, social distancing measures, and reduced consumer spending had a severe impact on many industries. However, as economies reopen and travel resumes, there is some ongoing support for small businesses to recover.

The Australian Government announced in the 2023 Federal Budget the extension of the instant asset write-off (albeit at lower thresholds) and the introduction of a new Small Business Energy Incentive.

Instant asset write-off extension

From 1 July 2023, the extended instant asset write-off allows businesses with an aggregated turnover of less than \$10 million to immediately deduct the full cost of qualifying assets costing less than \$20,000 that are first used or installed ready for use between 1 July 2023 and 30 June 2024. Because this threshold is on a per-asset basis, it allows multiple qualifying assets to be written off.

The case study below demonstrates a business implementing the instant asset write-off.

Case study 1: Instant asset write-off

‘ABC Construction’ is a business with an aggregated turnover of \$6 million. They upgrade assets (that are not energy efficient) within their office and take advantage of the instant asset write-off incentive. The new assets are listed in Table 1.

Table 1: New assets and their purchase price

New assets	Cost
Chairs	\$12,000
Desks	\$17,000
Flooring	\$7,500
Kitchen appliances	\$13,500
Light fixtures	\$5,000
Total	\$55,000

The new assets total \$55,000. Due to each asset’s cost being less than \$20,000, the entire cost of each is eligible to claim in the year of purchase, resulting in an accelerated claim of \$55,000.

Small Business Energy Incentive

The Small Business Energy Incentive will help up to 3.8 million small and medium-sized businesses generate ongoing power bill savings and contribute to Australia’s emission reduction efforts.

From 1 July 2023, small- and medium-sized businesses with an aggravated turnover of less than \$50 million can deduct an additional twenty per cent of the cost of eligible depreciating assets that support electrification and more efficient use of energy. This encourages them to make investments like upgrading to more efficient fridges and induction cooktops and installing batteries and heat pumps.

A total expenditure of up to \$100,000 will be eligible for the Small Business Energy Incentive, with the maximum bonus deduction being \$20,000. Businesses can upgrade existing assets or purchase new ones. Eligible assets will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024.

Qualifying assets include energy-efficient lighting, the adoption of energy management systems, or the utilisation of renewable energy sources. The Small Business Energy Incentive not only helps businesses reduce their environmental footprint but also lowers operational expenses, freeing up resources for further investment and growth.

The following case study demonstrates a business implementing the Small Business Energy Incentive.

Case study 2: Small Business Energy Incentive

‘XYZ Accountants’, with an aggregated turnover of \$8 million, operates from an office. They buy new energy-efficient assets as set out in Table 2.

Table 2: Newly purchased energy-efficient assets

Assets	Original cost	Small Business Energy Incentive (20%)	Deduction available (including 20% bonus)
Electric cooling and heating	\$11,220	\$2,244	\$13,464
Heat pump hot water system	\$4,500	\$900	\$5,400
Refrigerator	\$2,800	\$560	\$3,360
Solar batteries	\$13,500	\$2,700	\$16,200
Total	\$32,020	\$6,404	\$38,424

Table 2 illustrates the assets purchased, their original costs, the Small Business Energy Incentive, and available deductions in the first full financial year. Since each asset’s cost is less than \$20,000, applying the instant asset write off, the full cost of each asset can be written off, and an additional 20% can be claimed as a deduction under the Small Business Energy Incentive. This gives a total available deduction of \$38,424 on the outlay of \$32,020.

Without applying these incentives, the deductions would have been claimable over each asset’s effective life with a set rate according to the depreciation method selected.

By embracing business incentives and in turn, accelerating tax deductions, small and medium business incentives can boost cash flow and promote sustainable practices while contributing to long-term profitability and their competitive edge in an ever-evolving business landscape.

Businesses should engage a specialist quantity surveyor such as BMT Tax Depreciation for expert depreciation advice. BMT works with the Australian Taxation Office to complete compliant and maximised depreciation schedules while considering all business incentives and applying them where applicable.

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	\$1,786	\$1,999	\$2,473
		3BR brick veneer project home, level block, single level, shelf design	\$1,904	\$2,120	\$2,532
		3BR full brick project home, level block, single level, shelf design	\$1,895	\$2,114	\$2,626
		4BR weatherboard home, level block, single level, unique design	\$2,508	\$2,680	\$3,344
		4BR brick veneer home, level block, single level, unique design	\$2,665	\$2,791	\$3,512
		4BR full brick home, level block, single level, unique design	\$2,981	\$3,405	\$3,752
		3BR brick veneer project home, level block, two level, shelf design	\$1,985	\$2,193	\$2,705
		3BR full brick project home, level block, two level, shelf design	\$2,059	\$2,315	\$2,840
		4BR brick veneer home, level block, two level, unique design	\$2,786	\$3,149	\$3,655
		4BR full brick home, level block, two level, unique design	\$3,079	\$3,535	\$3,859
		Architecturally designed executive residence	\$4,086	\$5,231	\$7,317
	Townhouse	2BR single level brick veneer townhouse including allowance for common property	\$2,800	\$3,185	\$3,587
		2BR 2 level brick veneer townhouse including allowance for common property	\$2,875	\$3,238	\$3,763
		3BR single level brick veneer townhouse including allowance for common property	\$2,773	\$3,157	\$3,548
		3BR 2 level brick veneer townhouse including allowance for common property	\$2,847	\$3,317	\$3,777
	Units	3 level walk-up unit complex, concrete structure, ground floor parking	\$2,947	\$3,163	\$3,838
		3 level walk-up unit complex, concrete structure, basement parking	\$2,888	\$3,104	\$3,777
		4-8 level unit complex, including lift, concrete structure, ground floor parking	\$3,366	\$3,623	\$4,388
		4-8 level unit complex, including lift, concrete structure, basement parking	\$3,292	\$3,548	\$4,315
		8 or more level unit complex, including lift and basement car parking	\$3,493	\$3,964	\$5,042
	Commercial	1-4 level open plan offices, including A/C & lifts, excluding fit out	\$3,036	\$3,385	\$3,978
		4-8 level open plan offices, including A/C & lifts, excluding fit out	\$3,519	\$3,777	\$5,078
		8 levels and over, including A/C & lifts, excluding fit out	\$5,035	\$5,318	\$5,560
	Industrial	High Bay Warehouse, standard configuration, concrete floor, metal clad	\$1,446	\$1,633	\$1,761
		High Bay Warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	\$1,775	\$1,876	\$2,091
	Retail	Suburban shopping mall area including A/C	\$3,792	\$3,954	\$4,425
		Supermarket, including A/C, excluding fit out	\$2,402	\$2,565	\$2,875
	Hotels/motels	Single level boutique motel including A/C, guest facilities	\$4,672	\$5,346	\$7,027
		Single level tavern/hotel including A/C, excluding loose item fit out	\$3,898	\$4,638	\$5,581

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

Disclaimer | The information including the construction costs contained in Maverick is provided for general information only and on the understanding that BMT Tax Depreciation Pty Ltd nor any of its officers or employees are providing professional advice on any particular matter or are liable for any error or omission in the information or any damage or loss suffered from any reliance on that information. Professional advice should be sought for your particular circumstances.

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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