



1 FEATURED

Australians are reaping returns on renovations

The construction industry accounts for approximately 10% of Australian gross domestic product, employing over 1.2 million individuals who each play a part in building the homes that we have such an acute shortage of in Australia. Though improved from a year ago, building approvals are still trending low, with close to 2,000 construction companies filing for bankruptcy in the last financial year alone.

Long-term solutions to strengthening the industry will include embracing more innovative, locally manufactured construction methods, modular systems made off-site and more sustainable, locally sourced materials. However, the revision of costs associated with implementing these systemic changes will unfortunately take time to filter down to new property investors.

As an alternative, many Australian investors are shying away from building new and moving towards renovating, with Australians choosing to spend an estimated \$2.55 billion on property renovations in 2023 alone. Not only does a renovated property produce an increase in market and rental value, but the renovations also increase the depreciation deductions, strengthening the investor's cash flow.

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BMT Tax Depreciation
QUANTITY SURVEYORS

More than 66% of depreciation schedules prepared by BMT have had additional renovation or improvement works completed. Even if the improvements were completed by the previous owner, a new owner can still claim the qualifying works now and in the future.

Typical renovations that have shown a high return on investment and generated substantial depreciation deductions include upgrading kitchens and bathrooms, adding an extra room, security upgrades and solar panels.

Let’s consider a typical case study of an investment property valued at \$720,000. Rental income prior to the renovation was \$600 per week (\$31,200 per year). The investor completed a \$95,000 renovation in 2023, including a kitchen makeover, a bathroom makeover and the installation of solar panels.

Newly installed plant and equipment assets included an oven, cooktop, dishwasher and rangehood, as well as sixteen solar panels with an inverter. The investor also installed fixed and structural items such as kitchen cabinets, benchtops, a bath, toilet and tiles.

A post-renovation valuation found the property was now worth \$980,000 and a property manager’s rental appraisal also found the owner could earn \$890 per week (\$46,280 per year) (see Table 1).

Table 1: Property values before and after renovation

	Original	After renovation	Increase (\$)	Increase (%)
Property value	\$720,000	\$980,000	\$260,000	36%
Rental income p.a.	\$31,200	\$46,280	\$15,080	48%

As well as increasing the value of the asset, the rental income generated from this investment property has increased from \$31,200 per year to \$46,280 per year, giving a 16% return in the first full year on the \$95,000 invested in the renovation.

Below is a summary of the investor’s tax scenario before and after the renovation. An additional \$15,080 per year (\$290 per week) has been added to the investor’s cashflow before adding the additional tax deductions resulting from the renovation.

Table 2: Investor’s tax scenario before and after \$95,000 renovation

Depreciation scenario before and after \$95,000 renovation			
Scenario BEFORE renovation		Scenario AFTER renovation	
Annual income (\$600 x 52 weeks)	\$31,200	Annual income (\$890 x 52 weeks)	\$46,280
Annual expenses	\$53,900	Annual expenses	\$58,100
Pre-tax cash flow (income-expenses)	-\$22,700	Pre-tax cash flow (income-expenses)	-\$11,820
Depreciation allowance	\$3,985	Depreciation allowance	\$9,933
Total taxation loss (Pre-tax cash flow & depreciation)	-\$26,685	Total taxation loss (Pre-tax cash flow & depreciation)	-\$21,753
Tax refund (tax loss x 37% tax rate)	\$9,873	Tax refund (tax loss x 37% tax rate)	\$8,049
Annual cost of the investment property (pre-tax cash flow + tax refund)	-\$12,827	Annual cost of the investment property (pre-tax cash flow + tax refund)	-\$3,771
Weekly cost of the investment property	-\$247	Weekly cost of the investment property	-\$73
Difference of \$174 per week			

*The depreciation deductions in this case study have been calculated using the diminishing value method. Assumptions: The renovations were paid for by increasing the existing loan and the investor falls into an annual income tax bracket of 37 per cent.



Scrapping is another benefit that comes from a renovation. The removal and disposal of any potentially depreciable works or assets from an investment property can unlock additional deductions. The scrapping value is essentially the unclaimed or undeducted depreciable value of an asset at the time of removal and is calculated as follows:

Scrapping value = original depreciable value minus deducted value to date.

In the case of this renovation, prior works like bathroom tiles, vanity, bath, kitchen benchtops and cabinets are some of the elements that will have residual value that can be ‘scrapped’, and the owners may be entitled to claim the leftover amount in the year they are removed.

The increase in the rental income and value of the investment property after renovations, as well as the depreciation deductions and scrapping that can be claimed on the back of the renovations and improvements, illustrate the financial benefits of renovating an investment property.

We always recommend engaging a qualified, reputable quantity surveyor like BMT Tax Depreciation to complete an onsite inspection that will ensure that a depreciation schedule is compiled with maximised tax deductions for the owner.

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Upgrade your STRA and maximise depreciation deductions

With short-term rental accommodation (STRA) consistently being blamed for the shortage in the long-term rental market, legislative changes hoping to get STRA dwellings back into the long-term rental pool are ongoing.

Short-term rental accommodation (STRA), is a privately owned residential property that is registered with the state or regional government to be rented out for short periods. The minimum stay can be as little as one night, but the maximum length of a stay varies from state to state. Differentiating factors are location, and whether the property is hosted, with the owner residing in the property, or non-hosted, with the owner living offsite.

Early in 2023, Victoria announced a 7.5% levy on short-term rental platforms like Airbnb and Stayz, with the government hoping to raise around 70 million dollars to put towards social and affordable housing development.

In September 2023, Byron Shire council in NSW was authorised to cap most registered short-term rentals at 60 days in a calendar year for non-hosted STRA dwellings in most parts of the shire. Specific holiday hotspots in Byron Bay and Brunswick Heads have been isolated with no caps on short-term rentals throughout the year.

In greater Sydney and nominated regional NSW areas, non-hosted, government-registered STRA dwellings can now be rented for up to 180 days per year, leaving properties unavailable for rent as STRA for the remainder of the year.

Western Australia experienced a particularly stringent housing shortage over the past year and has followed suit with new compulsory short-term rental registrations and similar STRA restrictions. Occupancy of non-hosted properties is now limited to a maximum of 180 total days per calendar year, with a restriction of no more than three consecutive months at a time.

The registration of short-term rentals across NSW alone now exceeds 45,000 and mayors in other holiday hotspots are calling on the Government to step in with similar restrictions. Vacant property taxes, levies and annual caps will be considered when the New South Wales Government reviews further regulation of the short-term rental market.

Despite these ongoing restrictions and obvious challenges triggered by interest rate hikes and wavering investor sentiment, the short-term rental sector showed growth in 2023 and this growth is expected to continue into 2024. This is predominantly due to the return of international tourism and an increase in occupancy and daily room rates. Airbnb guests spent over 3 billion dollars in Australia last year and supported nearly 28,000 jobs in communities across NSW alone.

As income-producing properties, STRA dwellings are eligible for depreciation deductions and BMT saw a 15% increase in depreciation schedules completed for STRA dwellings in 2023. These depreciation schedules boosted cash flow for investors, especially for properties that underwent upgrades and renovations that led to improved online rankings and higher daily rates.

In the tables below we have listed potential depreciation deductions for top-ranked amenities in short-term rental reviews, illustrating how an investor can maximise tax deductions when crafting an STRA experience that will have guests rushing to book their property.

The necessities

Apart from location, the highest searched criteria for STRAs includes Wi-Fi, kitchen facilities and bathroom amenities.

Asset	Opening value	Year 1 deductions	First 5 cumulative
Bathroom accessories - Freestanding	\$140	\$140	\$140
Cooktops	\$1,400	\$233	\$1,163
Heat, light & exhaust units	\$450	\$84	\$394
Ovens	\$2,400	\$400	\$1,435
Rangehoods	\$1,200	\$200	\$997
Spa bath pumps	\$750	\$141	\$657
Total	\$6,340	\$1,198	\$4,786

Creature comforts

When it comes to those all-important, price-determining reviews and rankings, soft furnishings and ambience are highly rated *mentionables* that can swing a user to your STRA.

Asset	Opening value	Year 1 deductions	First 5 cumulative
Clothes dryers	\$827	\$155	\$724
Cutlery & crockery	\$953	\$179	\$835
Dishwashers	\$1,652	\$413	\$1,425
Furniture - Freestanding	\$10,172	\$1,907	\$8,911
Microwave ovens	\$318	\$60	\$279
Refrigerators	\$1,977	\$330	\$1,381
Surround sound systems	\$1,716	\$343	\$1,373
Television sets	\$2,594	\$649	\$2,081
Washing machines	\$1,463	\$366	\$1,262
Total	\$21,672	\$4,402	\$18,271

Continually improving an STRA through upgrades and renovations therefore doesn't only increase the potential for stronger reviews and rankings that will earn the investor the best daily rates, but with the depreciation deductions available on these renovations and improvements, the investor will also maximise their tax deductions and increase cash flow.

Site inspections are the best way to minimise risks and maximise depreciation deductions

In a white paper released in August 2023, the Australian Institute of Quantity Surveyors (AIQS) outlines the importance of a site inspection as a reliable and accurate way to maximise the depreciation deductions on an investment property.

The Quantity Surveyor's Guide to Residential Tax Depreciation is a comprehensive framework that provides details on how quantity surveyors can minimise risks for investors. It highlights that not conducting an in-person site inspection could result in depreciation deductions being missed and essential tax return information being overlooked.

It validates the BMT approach to property depreciation, insisting that a physical site inspection by a depreciation specialist ensures the most reliable result, delivering maximum depreciation deductions on an investment property.

Reasons

According to data BMT has gathered over the course of completing close to 1 million depreciation schedules, 66% of investment properties have undergone some form of renovation or upgrade.

Depreciation can be claimed by the current property owner for renovations and upgrades made by the previous owner. A property depreciation specialist's expertise becomes critical when dealing with the complexities of calculating depreciation deductions on a second-hand property, where renovations and improvements are often hidden from the inexperienced eye.

The ATO often requires evidence to justify these deductions in a depreciation schedule and without a site inspection by a depreciation specialist, it is impossible to identify every depreciable asset, including wiring, plumbing and other hidden expenditure.

Even if the construction costs and/or a construction contract are supplied, it may still be necessary for the quantity surveyor to estimate the cost of components within the total construction cost, especially as it relates to Division 40 plant and equipment, which is another important step in the site inspection process.

Risks

If the quantity surveyor is unable to perform a site visit and is obliged to make inferences regarding deductions, the quantity surveyor must furnish the client with a formal addendum outlining the reasons for this limitation, acknowledging potential inaccuracies in the report and disclosing potential risks to the client, absolving the author of any liability. This position is endorsed by the AIQS and the National Tax and Accountants' Association.

In case of an audit, the absence of a site inspection may impact the outcome, as non-compliance with ATO and AIQS regulations can lead to the rejection of the depreciation schedule. It is therefore important that property investors recognise that, once a schedule is finalised, the quantity surveyor responsible for its preparation bears no responsibility or liability for any audits in the absence of a site inspection, and subsequent inaccuracies.

The lodgment of an inaccurate or unreliable depreciation schedule can result in additional tax, penalties and interest being imposed by the ATO, and can also lead to an investigation by the Tax Practitioners Board.

Returns

The Quantity Surveyor's Guide to Residential Tax Depreciation promotes industry-wide consistency, aims to prevent unethical practices, and ensures the protection of clients, accountants and quantity surveyors. An in-person site inspection is therefore the most accurate and reliable way to maximise the depreciation deductions on your investment property, which is why we at BMT Tax Depreciation always insist on one.

BMT Construction Cost Calculator

We have leveraged our nearly 30 years of experience in property depreciation at BMT to create a Construction Cost Calculator. The tool is designed for small developers and property enthusiasts to easily estimate construction costs for various building types, including townhouses, residential apartments, office blocks, industrial warehouses and hotels.

By simply answering five easy questions, including the geographic area, square meterage, year of the build, level of finish and type of building you would like to construct, you can calculate the estimate for your proposed build.

The costs are calculated on a Gross Floor Area (GFA) rate. This is the standard measure used by councils, banks and property professionals, referring to the sum of the Fully Enclosed Covered Area (FECA) and the unenclosed covered area (UCA) of a building, measured in square metres.

The Fully Enclosed Covered Area encompasses all useable covered floor space, including garages, basements, stairs and all enclosed covered walkways alongside the exterior of a building.

The second element of the Gross Floor Area rate is the Unenclosed Covered Area. This includes any useable floor space that is not covered by a full-height wall. Items such as roofed balconies, open verandas, attached covered walkways and other trafficable, covered areas will be included in this calculation.

Estimating the construction costs of a proposed project can be useful for feasibility studies, construction cost planning and budget allocation.

Use the BMT Construction Cost Calculator today. Available as an app for your iPhone, iPad, Android phone or tablet.



The ‘flight to quality’ can fuel your depreciation deductions

2023 was a challenging year for the property industry. However, despite interest rate hikes, inflation and ongoing consumer uncertainty dominating the headlines, industrial commercial property has remained resilient. Much of this was driven by occupier demand boosting rents for prime and second grade industrial property generating stable cash-flow from tenants on long-term leases.

In recent years the ‘flight to quality’ has been a trend driving other commercial sectors, including the strained office and retail spaces. In this flight to quality, access to transport and sustainable features like waste management, water usage, and energy efficiency are a priority.

The benchmark in measuring a property’s sustainable features is the National Australian Built Environment Rating System (NABERS). Commercial property owners and managers are required to disclose this rating at the point of sale or lease, under the Building Energy Efficiency Disclosure (BEED) Act 2010.

In addition, the federal government released its draft exposure of the Mandatory Sustainability Reporting Framework in January 2024, inviting responses due later in the year.

The consultations seek to introduce a standardised and internationally aligned framework for disclosing sustainability-related risks and opportunities, requiring businesses to report on direct and indirect emissions in their value chain.

Though sustainability reporting is not yet mandatory, the conversation is on the table and the industrial property market will soon be following the flight to quality trend, prioritising sustainable features as a necessity rather than a luxury.

Reluctance from both landlords and tenants to bear the substantial costs of sustainable upgrades has hindered progress in commercial property in this area, but the implementation of a green lease framework can potentially align both parties to mutual sustainability objectives.



JLL investments define a green lease as an agreement between landlord and tenant that sets out environmental objectives on how the building is to be improved, managed and/or occupied in a sustainable manner.

According to the Australian Department of Climate Change and Energy Efficiency, a green lease agreement aims to ensure the sustainable construction, fit-out, usage and maintenance of a commercial property, as mutually agreed by landlord and tenant.

While mandatory sustainability reporting is still in the consultation phase, the flight to quality and the pursuit of higher rental rates from high-calibre, long-term tenants in the industrial space, may be a good enough reason to make these changes.

A green lease may be the vehicle to ensure a shared responsibility for the implementation of these changes.

For most businesses using industrial spaces, the largest contributors to greenhouse gasses are water, heating and electricity consumption, which can easily be upgraded to meet sustainability standards that have become a central feature in the flight to quality.

Depreciation deductions are available for tenants and landlords when upgrading assets in their value chain ahead of the inevitable transition to more sustainable features. Below is an example of an industrial space of 1,000 sqm, with some examples of depreciation deductions available for both tenant and landlord.

Table 1. Deductions available to the landlord of a 1,000 sqm industrial space for sustainable upgrades

Capital works (Div 43)	Rate	Total cost	First full financial year	First 5 years cumulative
Foil board insulation	2.5%	\$121,600	\$3,040	\$15,200
Plant & equipment (Div 40)	Effective life	Total cost	First full financial year	First 5 years cumulative
Solar panels	20 years	\$90,250	\$9,025	\$36,958

Calculated using diminishing value method.

Table 2. Deductions available to the tenant of a 1,000 sqm industrial space for installing sustainable upgrades

Plant & equipment (Div 40)	Effective life	Total cost	First full financial year	First 5 years cumulative
Hot water unit - heat pump	15 years	\$78,900	\$10,520	\$40,322
LED lights	5 years	\$36,250	\$14,500	\$33,431
Total			\$25,020	\$73,753

Calculated using diminishing value method.

Since 1 July 2023, small and medium-sized businesses with a turnover under \$50 million have benefitted from an additional twenty per cent deduction on eligible depreciating assets promoting energy efficiency and electrification.

Under this Small Business Energy Incentive, businesses could potentially claim up to \$20,000 in bonus deductions, with a total expenditure cap of \$100,000. This applies to both upgrading existing assets and acquiring new ones, provided they are first used or installed between 1 July, 2023, and 30 June, 2024.

With substantial depreciation deductions and small business energy incentives available for these sustainable upgrades, both landlords and tenants will benefit from making these changes. To ensure that all Division 40 and Division 43 works are accurately assessed, property investors and tenants should speak to a trusted accountant and a specialist quantity surveyor like BMT Tax Depreciation.

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 m ²)		
			Low	Medium	High
	House	3BR weatherboard project home, level block, single level, shelf design	\$1,817	\$2,034	\$2,516
		3BR brick veneer project home, level block, single level, shelf design	\$1,936	\$2,157	\$2,576
		3BR full brick project home, level block, single level, shelf design	\$2,012	\$2,235	\$2,794
		4BR weatherboard home, level block, single level, unique design	\$2,551	\$2,726	\$3,402
		4BR brick veneer home, level block, single level, unique design	\$2,711	\$2,839	\$3,573
		4BR full brick home, level block, single level, unique design	\$3,032	\$3,464	\$3,817
		3BR brick veneer project home, level block, two level, shelf design	\$2,019	\$2,231	\$2,752
		3BR full brick project home, level block, two level, shelf design	\$2,094	\$2,355	\$2,889
		4BR brick veneer home, level block, two level, unique design	\$2,834	\$3,203	\$3,718
		4BR full brick home, level block, two level, unique design	\$3,132	\$3,596	\$3,926
	Townhouse	Architecturally designed executive residence	\$4,157	\$5,322	\$7,444
		2BR single level brick veneer townhouse including allowance for common property	\$2,848	\$3,240	\$3,649
		2BR 2 level brick veneer townhouse including allowance for common property	\$2,924	\$3,294	\$3,828
		3BR single level brick veneer townhouse including allowance for common property	\$2,821	\$3,212	\$3,609
		3BR 2 level brick veneer townhouse including allowance for common property	\$2,897	\$3,375	\$3,842
	Units	3 level walk-up unit complex, concrete structure, ground floor parking	\$2,998	\$3,218	\$3,905
		3 level walk-up unit complex, concrete structure, basement parking	\$2,938	\$3,157	\$3,842
		4-8 level unit complex, including lift, concrete structure, ground floor parking	\$3,425	\$3,685	\$4,464
		4-8 level unit complex, including lift, concrete structure, basement parking	\$3,349	\$3,609	\$4,390
		8 or more level unit complex, including lift and basement car parking	\$3,554	\$4,033	\$5,129
	Commercial	1-4 level open plan offices, including A/C & lifts, excluding fit out	\$3,089	\$3,444	\$4,047
		4-8 level open plan offices, including A/C & lifts, excluding fit out	\$3,580	\$3,842	\$5,166
		8 levels and over, including A/C & lifts, excluding fit out	\$5,123	\$5,410	\$5,657
	Industrial	High Bay Warehouse, standard configuration, concrete floor, metal clad	\$1,471	\$1,661	\$1,791
		High Bay Warehouse, standard configuration, concrete floor, pre-cast concrete wall clad	\$1,806	\$1,909	\$2,127
	Retail	Suburban shopping mall area including A/C	\$3,858	\$4,022	\$4,501
		Supermarket, including A/C, excluding fit out	\$2,443	\$2,609	\$2,924
	Hotels/motels	Single level boutique motel including A/C, guest facilities	\$4,753	\$5,438	\$7,149
		Single level tavern/hotel including A/C, excluding loose item fit out	\$3,965	\$4,719	\$5,678

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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