

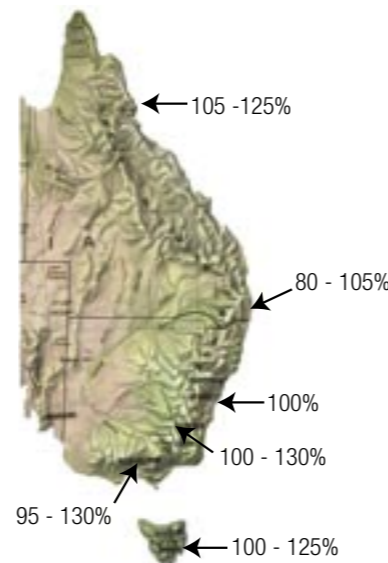
Construction Costs Per Square Metre

Construction Type

Level of Finish

Construction Type	Low	Medium	High
Residential			
3br brick veneer project home, level block, shelf design	\$ 600.00	\$ 750.00	\$ 950.00
Architecturally designed executive residence	\$ 1670.00	\$ 2,100.00	\$ 3,200.00
3br, 2 level brick veneer townhouse, including allowance for common property	\$ 825.00	\$ 945.00	\$ 1,300.00
3 level walk-up unit complex, concrete structure ground floor parking	\$ 900.00	\$ 1,075.00	\$ 1,400.00
Multi level apartment building, including lift and basement car parking	\$ 1,050.00	\$ 1,325.00	\$ 1,700.00
Commercial			
1-2 level open plan offices, including A/C, excluding fitout	\$ 750.00	\$ 1,000.00	\$ 1,250.00
1-4 level open plan offices, including A/C & lifts, excluding fitout	\$ 950.00	\$ 1,045.00	\$ 1,480.00
4-8 level open plan offices, including A/C & lifts, excluding fitout	\$ 1,050.00	\$ 1,280.00	\$ 1,680.00
8 levels and over, including A/C & lifts, excluding fitout	\$ 1,550.00	\$ 1,875.00	\$ 2,265.00
Industrial			
High Bay Warehouse, standard config, concrete floor, metal clad (size to 3500m ²)	\$ 450.00	\$ 550.00	\$ 680.00
High Bay Warehouse, standard config, concrete floor, metal clad (size > 3500m ²)	\$ 385.00	\$ 550.00	\$ 680.00
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size to 3500m ²)	\$ 440.00	\$ 580.00	\$ 700.00
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size > 3500m ²)	\$ 420.00	\$ 580.00	\$ 700.00
Retail			
Suburban shopping mall area including A/C	\$ 1,000.00	\$ 1,225.00	\$ 1,325.00
Supermarket, including A/C, excluding fitout	\$ 865.00	\$ 950.00	\$ 1,100.00
Speciality shops, including A/C, excluding fitout	\$ 585.00	\$ 650.00	\$ 715.00
Hotels/Motels			
Single level boutique motel, including A/C quest facilities	\$ 1,425.00	\$ 1,585.00	\$ 1,745.00
Single level tavern/hotel, including A/C, excluding loose item fitout	\$ 1,245.00	\$ 1,565.00	\$ 1,710.00
Licensed club, including A/C, bar, lounge, rec facilities	\$ 1,220.00	\$ 1,535.00	\$ 1,650.00
Multi-level, 3 star hotel including A/C, restaurant, bar, common facilities	\$ 1,845.00	\$ 1,980.00	\$ 2,065.00

Regional Variations



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5. The rates exclude any allowance for Goods and Services Tax including compliance cost.
6. This newsletter is issued as a helpful guide and is not intended to, and does not cover all aspects of the topics discussed. Professional advice should be sought before any action upon these topics is undertaken.



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Tax Depreciation - How it all comes together...

How does Tax Depreciation affect the Negative Gearing equation?

Tax Depreciation greatly enhances the annual real return of an investment property. A scenario is provided to illustrate how the equation changes once depreciation (a non-cash deduction) is applied to a scenario where the investor is in the top tax bracket of 48.5%.

Example:	2 Bedroom Unit	Income	Expenses
	Purchase Price	\$400,000	
	Stamp Duty	\$13,500	
	Solicitors fees, searches, other purchase costs	\$4,500	
		Rent p/a \$350 x 52	\$18,200
			Loan (interest only) \$28,000
			Property management, rates, insurances, repairs, etc \$5,500
	Total Loan Facility	\$418,000	Total Income \$18,200
			Total Expenses \$33,500

Scenario 1: Before Tax Depreciation is applied	Net Loss
Actual after tax cash outlay by investor (excl depreciation) per annum	(\$7,880)
Cash outlay by investor (excl depreciation) per week	(\$151)

Scenario 2: After Tax Depreciation is applied	Net Loss before depreciation
Add Depreciation benefit - full year	(\$9,800)
Total Tax Loss	(\$25,100)
Tax 'savings' @ 48.5%	\$12,174
Therefore	
Net cash outlay	(\$15,300)
Less Tax Savings	(\$12,174)
Actual after tax cash outlay by investor (incl depreciation) per annum	(\$3,126)
Cash outlay by investor (incl depreciation) per week	(\$60)

This simple example clearly shows the impact of depreciation on the after tax cash outlay per week. There is a significant difference in the after tax cash outlay when depreciation is applied demonstrating the importance of maximising this 'non-cash' tax deduction.

Without depreciation there is a significant negative cost to the investor totalling \$151 per week. Employing a specialist to maximise the available depreciation significantly enhances the investor's cash flow position. Total cash outlay reduces to \$60 per week.

The next edition of Maverick will analyse further the above example to view the impact of depreciation over the full life of a property investment.

Depreciation Matrix

Maximising Your Property's Tax Depreciation Potential

The depreciation benefits obtainable depends greatly on the type of building, its age, use and fitout. Based on the Diminishing Value method of depreciation, several scenarios are provided below as an approximate guide.

Building Type	1 BR Unit	2 BR Unit	3 BR Unit	Townhouse	Townhouse	Residential House	Residential House	Commercial Building	Industrial Facility
Purchase Price	\$300,000	\$400,000	\$450,000	\$300,000	\$400,000	\$250,000	\$375,000	\$2.5m	\$1m
Year 1 Depreciation	\$8,000	\$10,000	\$12,000	\$5,000	\$6,500	\$4,800	\$6,250	\$100,000	\$35,000
Year 1-5 Cumulative Depreciation	\$38,000	\$50,000	\$60,000	\$25,000	\$30,000	\$24,000	\$28,000	\$450,000	\$175,000

610 St Kilda Rd, South Yarra VIC
- one of our latest projects

GST on Property Sales - Part One

This article is the first of a two part series comparing the prices and GST calculations under various examples of residential and commercial property sales. This article addresses residential property sales.

The market for residential property operates on a GST-inclusive basis, as it is rare for a purchaser to be able to claim an input tax credit for the GST charged to them. The net cost to the purchaser is usually the GST-inclusive price and it would not matter to them whether or how much GST was charged. Typically, a vendor cannot add GST to an agreed (market) price in order to recover its GST cost but must take the price that the market sets.

In the table below, we display the GST calculations for a GST-inclusive selling price of \$550,000. It is assumed that the vendor acquired the residential property after 1 July 2000 for \$330,000.

Price and Cost Elements	Sale by a Non-GST Registered Vendor	SALE BY A GST REGISTERED VENDOR		
		Existing Property that is Input Taxed	New Property subject to the Margin Scheme	New Property subject to the Full Tax Method
a. Sales Price (GST inclusive)	550,000	550,000	550,000	550,000
b. Vendors Original Acquisition Price	330,000	330,000	330,000	330,000
c. Margin (b-a)	N/A	N/A	220,000	N/A
d. Value Subject to GST	N/A	N/A	220,000	550,000
e. GST (1/11 th of d)	Nil	Nil	20,000	50,000
f. Net Revenue to Vendor (a-b-e)	220,000	220,000	200,000	170,000

A GST registered vendor will benefit most if the property can be sold without GST because it is existing property that is input taxed. If the residential property is new, the vendor will usually benefit if it uses the margin scheme but must ensure that it is entitled to do so.

This article was prepared by Stephen Baxter, Associate Director, Indirect Tax Consulting Group. It does not attempt to exhaustively cover all the GST issues relating to property industry supplies. Stephen can be contacted on (02) 9221 2888 if you wish to discuss the impact of GST on particular property related transactions which you are undertaking.



Replacement Cost Estimates

Insurance Valuations of Buildings

A topic of interest to many property owners recently is the issue of Replacement Cost values or estimates for base building insurance calculations. With increasing insurance premiums and construction costs it is becoming imperative that the replacement estimate is accurate.

Until recently, property valuation professionals (valuers) have prepared these reports, but this profession and the insurance industry have become increasingly concerned as to their liability and qualification of their figures. We believe a quantity surveyor with construction cost expertise is the most appropriately qualified professional to estimate the replacement cost of buildings, as opposed to valuers, who are experts in the prevailing market sale price of buildings.

There are three possible outcomes from inaccurately estimated replacement costs:

1. Through having undervalued insurance replacement estimates of property, the owner runs the risk of significant losses in the event of a major disaster for example, fire or earthquake.
2. If the replacement value is over stated significant additional premiums will result.
3. If under insured in the case of partial loss, the insurer may only pay that percentage of under insurance leaving the building owner to meet the shortfall.

When determining the replacement cost of a building many issues need to be considered, including but not limited to:

- Demolition and removal of debris and asbestos and the associated consultant fees.
- The cost of constructing the building considering planning constraints and building codes.
- Consultants fees and all preliminaries.
- Cost Escalations for: 1) assessment of damage and claim finalisation, 2) lead time of planning, 3) design and documentation, 4) calling of tenders and tender evaluation, 5) construction and fit out period, and 6) time lapse between policy renewal dates.

It is imperative that all buildings are adequately insured should an insurance claim need to be lodged. Specialist cost advice is highly beneficial due to the potential complexity of the process between total loss and reinstatement of the original building. BMT & Assoc provide detailed advice in the area for residential, commercial, retail, industrial and special use projects.



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