

For further information please refer to our website
www.bmtassoc.com.au

MAVERICK™

Prepared by **BMT & ASSOC**
QUANTITY SURVEYORS

Issue 16 Summer 2004/2005

Construction Costs Per Square Metre

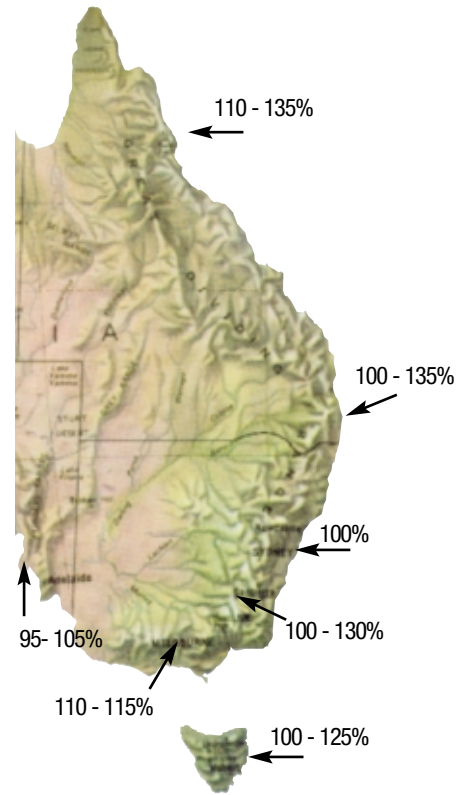
Sydney

Construction Type

Level of Finish

Regional Variations

Construction Type	Level of Finish		
	Low	Medium	High
Residential			
3br brick veneer project home, level block, shelf design	\$850	\$1,050	\$1,340
Architecturally designed executive residence	\$1,820	\$2,800	\$4,300
3br, 2 level brick veneer townhouse, including allowance for common property	\$1,050	\$1,200	\$1,750
3 level walk-up unit complex, concrete structure ground floor parking	\$1,220	\$1,400	\$1,850
Multi-level apartment building, including lift and basement car parking	\$1,300	\$1,600	\$2,250
Commercial			
1-2 level open plan offices, including A/C, excluding fitout	\$920	\$1,080	\$1,350
1-4 level open plan offices, including A/C & lifts, excluding fitout	\$1,025	\$1,130	\$1,600
4-8 level open plan offices, including A/C & lifts, excluding fitout	\$1,295	\$1,600	\$1,890
8 levels and over, including A/C & lifts, excluding fitout	\$1,675	\$2,025	\$2,445
Industrial			
High Bay Warehouse, standard config, concrete floor, metal clad (size to 3500sqm)	\$520	\$575	\$750
High Bay Warehouse, standard config, concrete floor, metal clad (size > 3500sqm)	\$460	\$540	\$715
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size to 3500sqm)	\$575	\$665	\$920
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size > 3500sqm)	\$560	\$630	\$860
Retail			
Suburban shopping mall area including A/C	\$1,080	\$1,325	\$1,430
Supermarket, including A/C, excluding fitout	\$935	\$1,025	\$1,190
Specialty shops, including A/C, excluding fitout	\$650	\$760	\$865
Hotels/Motels			
Single level boutique motel, including A/C guest facilities	\$1,495	\$1,875	\$2,450
Single level tavern/hotel, including A/C, excluding loose item fitout	\$1,310	\$1,645	\$1,795
Licensed club, including A/C, bar, lounge, rec facilities	\$1,280	\$1,610	\$1,730
Multi-level, 3 star hotel including A/C, restaurant, bar, common facilities	\$1,940	\$2,080	\$2,170



Disclaimer

The Construction Costs herein are published on and should be read subject to the following conditions:

- Construction costs are published as a matter of interest only and are not intended to be relied upon by readers. In any situations which may be similar to matters herein readers should exercise and rely upon their own judgement.
- Neither BMT & ASSOC nor any of its officers or employees bear any responsibility for any error in the material published in this publication or in any previous publication, or for any damage or loss resulting from any reliance on any material published in this publication or in any previous publication.
- Construction costs are not intended for tendering or pricing variations. They are average prices in the Metropolitan Area and should be adjusted with reference to specific conditions. The rates include the cost of labour and material, waste, hoisting, fixing in position and for profit. The profit allowance is based on the prevailing market conditions in each capital city.
- These Construction Costs were produced prior to publication and due allowance should be made in this regard to the rates shown.
- The rates exclude any allowance for Goods and Services Tax including compliance cost.

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.

BMT & ASSOC
QUANTITY SURVEYORS



Sydney:

Level 9, 8 Spring St, Sydney NSW 2000
PO Box N314 Grosvenor Place 1220
PH: 02 9241 6477 Fax: 02 9241 6499

Brisbane:

Level 24, 10 Eagle Street
GPO Box 3229 Brisbane QLD 4001
Ph: 07 3221 9922 Fax: 07 3221 9933

Adelaide:

Level 10, 60 Waymouth Street
GPO Box 1588 Adelaide SA 5001
Ph: 08 8231 1133 Fax: 08 8231 6600

Email: info@bmtassoc.com.au
Local Call: 1300 728 726

Melbourne:

Level 50, 120 Collins Street
GPO Box 4260 Melbourne VIC 3001
PH: 03 9654 2233 Fax: 03 9654 2244

Newcastle:

19 Bruncker Rd, Broadmeadow NSW 2292
PO Box 340, Newcastle NSW 2300
Ph: 02 4927 8195 Fax: 02 4927 8196

Canberra:

Level 6, 39 London Circuit
GPO Box 2526 Canberra ACT 2601
Ph: 02 6257 4800 Fax: 02 6257 4811

Website: www.bmtassoc.com.au
Local Fax: 1300 728 721

NTAA select BMT & ASSOC Preferred supplier of capital allowance & tax depreciation services

The National Tax & Accountants' Association (NTAA) is a professional tax advisory Association. It is a non-profit educational association dedicated to providing the very best tax advice and education to its members. The NTAA is one of the most recognised and practical associations for accountants Australia wide.

It was formed on the basis that tax advisers, accountants and people in business need an association that is strictly dedicated to helping them solve their tax problems.

Since the NTAA's inception in September 1992, its reputation as a professional and practical tax association has grown immensely. Members of the NTAA are entitled to use its tax enquiry "hotline" and receive the monthly publication "Voice".

BMT & ASSOC has been selected by the NTAA to be the preferred and only supplier of Tax Depreciation and Capital Allowance Services, Australia wide. The NTAA works very closely with the ATO providing industry feedback, and is at the forefront of tax legislation change.

The NTAA screened a number of quantity surveying firms' products. BMT & ASSOC was found to provide a cost competitive product coupled with a high level of client satisfaction. It was also found that BMT & ASSOC offered an easy to follow and accurate tax depreciation schedule, as well as an Australia wide service.

The NTAA will continually monitor BMT & ASSOC's reports and provide valuable input to ensure reports meet their client's highest expectations. This will help ensure that BMT & ASSOC produced tax depreciation reports will maximise investor deductions, whilst being consistent with ATO guidelines and easily understood by accountants.

Quantity Surveyor or Surveyor, what's the difference?

What type of surveyor do you need?

Surveying encompasses various disciplines, including: quantity, cadastral, mining, engineering, hydrographic, geographic, photogrammetry and geodesy.

Many people misunderstand the difference between a quantity surveyor and the most commonly known surveyor, the land (cadastral) surveyor. When the majority of people think of a quantity surveyor they picture a person behind a theodolite. Whilst a quantity surveyor does measure and estimate items, the key services they provide are vastly different from that of a land surveyor.

Whilst quantity surveyors and land surveyors share client groups – such as property owners, builders and developers, they offer vastly different services to each group. Listed below are the common services provided by each profession.

Quantity Surveyor

Services include:

- Development of feasibility studies
- Construction cost planning services
- Bills of quantities preparation
- Tender preparation, evaluation & recommendation
- Assessment of work in progress
- Forecasting & reporting
- Expert witness services
- Tax depreciation schedules
- Replacement cost estimates
- Sinking fund forecasts
- Asset registers

Land Surveyor

Services include:

- Define boundaries when land is bought or sold
- Project management, design and approval processes related to land development
- Setting out new buildings
- Conveyancing surveys
- Flood level surveys
- Detail & contour surveys
- Sub-divisions
- Town planning

Quantity Surveyors were traditionally involved in measuring a Bill of Quantities, (a document that itemises the quantities of materials used in a construction project). Thus the name Quantity Surveyor was inextricably linked to this profession.

Cadastral can be defined as "A public record, survey, or map of the value, extent, and ownership of land as a basis of taxation". Simply, the reference to land alludes to the basis of a land surveyor's work – surveying the land.

Inside this issue

- NTAA select BMT & ASSOC
- Quantity Surveyors & Land Surveyors
- Residential Property Legislation Changes
- Commercial Property Legislation Changes
- Insurance
- Melbourne Construction Market
- Construction Costs Per Square Metre



Australia Wide Service

Residential Property Tax Depreciation & Capital Allowance Review

The effect of the July 2004 changes

Key points:

- Australian Taxation Office has reviewed the classification and effective life of assets typically found in residential properties.
- Changes are applicable to property owners who exchange on a residential property after 1 July 2004.
- All items previously allowed are still claimable, the classification of various depreciable items has changed (Division 40/Division 43).
- In effect some items are no longer depreciable, but are classified as claimable under the appropriate (Division 43) classification.

The Australian Taxation Office has recently drafted an effective life review of residential property assets, which became effective 1 July 2004. The changes alter the classification of various depreciable items, whilst all previously allowed items are still claimable, certain items are to be re-calculated under a different classification, therefore, at a new rate or a new effective life.

The changes are applicable to property owners who exchange on residential property after 1 July 2004. It applies to owners of residential properties such as houses, flats and units.

The changes are not retrospective, old reports prepared by BMT & ASSOC do not need to be amended, the ATO has made the following comment regarding this issue:

"The Tax Office does not intend to use the new determination of effective lives as the basis of any audit activity on prior year rental property claims. However, where the Tax Office becomes aware of blatant cases of over claiming of deductions based on the incorrect categorisation of assets, then we may adjust a taxpayer's prior year returns".

For example, a comparison of the previous classification and the revised classification:

Item	Floating Timber Floor
Previous Classification	Division 43, 40 year effective life, 2.5% depreciation rate
Current Classification	Division 40, 15 year effective life, 10% Diminishing Value or 6.7% Prime Cost depreciation rate

Item	Light Fitting - hardwired
Previous Classification	Division 40, 20 year effective life, 7.5% Diminishing Value or 5% Prime Cost depreciation rate
Current Classification	Division 43, 40 year effective life, 2.5% depreciation rate

Note: Division 43 – Special Building Write Off Allowance,
Division 40 – Plant & Equipment items based on effective life.

Furthermore to the revised classification changes, various Division 40 items, such as air conditioning units and kitchen appliances, have retained their classification, but the effective life has been adjusted.

Examples:

Examples of tax depreciation allowances for a typical house and unit before and after tax depreciation legislation changes 1 July 2004.

Typical House: \$400,000 purchase price.

Financial Year	Previous	Current	Financial Year	Previous	Current
1	11,027	10,405	6	7,509	7,452
2	12,151	10,781	7	6,789	7,257
3	10,081	9,509	8	6,298	6,571
4	9,115	8,416	9	5,958	6,110
5	8,086	7,566	10	6,012	5,797
			Total (10 years)	83,026	79,864

5 year Difference	-\$3,783	% Difference 5 years	-7.5%
10 year Difference	-\$3,162	% Difference 10 years	-3.8%

Typical Unit: \$400,000 purchase price (40 unit development).

Financial Year	Previous	Current	Financial Year	Previous	Current
1	13,482	11,263	6	6,976	6,847
2	11,937	10,587	7	6,467	6,832
3	9,847	8,979	8	6,121	6,276
4	8,604	7,966	9	5,874	5,909
5	7,732	7,191	10	5,992	5,663
			Total (10 years)	83,032	77,513

5 year Difference	-\$5,616	% Difference 5 years	-10.9%
10 year Difference	-\$5,519	% Difference 10 years	-6.6%

Commercial Property Tax Depreciation & Capital Allowance Review

Proposed changes in legislation

It has recently been confirmed that the ATO is revising the current legislation of commercial property tax depreciation legislation. The changes will help to align commercial, industrial and retail properties with the recent residential changes. For example, plant and equipment items will have new or re-classified rulings applied to them.

The ATO has released little information regarding such changes, however it is understood that changes are due to be released in January 2005. It is unclear as to whether these changes will be effective at this date or in a draft format for comment.

Insurance

Accurately determining the cost to replace property

With increasing insurance premiums and construction costs, it is becoming imperative that building replacement cost estimates are 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. BMT & ASSOC 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; and
3. If underinsured and in the case of partial loss, the insurer may only pay that percentage of under-insurance leaving the building owner to meet the shortfall.

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 regarding replacement cost estimates for residential, commercial, retail, industrial and special use projects.



Photo: Tim Grainger - www.timgrainger.com

Melbourne Construction Market

Developers report

An increase in construction costs, over supply of completed product, coupled with continuing industrial uncertainty within the Victorian labour market, is resulting in a slow down in the Melbourne construction market. Large construction projects are falling behind schedule, with construction companies likely to face substantial losses.

Never has it been more important in the Victorian market to ensure appropriate pre-construction assessment of a potential construction project. BMT & ASSOC have provided construction consultancy services for various Melbourne based construction projects, and believe the following services will assist a developer to determine the viability of a project:

- **Feasibility Studies:** encapsulates market research, financial analysis of the project, projected depreciation benefits and sensitivity analysis of the internal rate of return.
- **Construction Cost Estimates:** estimates as the design develops, to help the developer design to a cost. A pre-tender estimate is used to inform the developer of the anticipated tender price.
- **Tender Preparation & Evaluation:** the process of recommending a procurement method, preparing tender documents, selecting tenderers, analysing tender submissions and making a recommendation.
- **Contract Advice:** advises the developer of the most favourable form of contract to create with a selected contractor, this is highly important as the contract forms the basis of a legal agreement.
- **Procurement Advice:** advises a developer of alternate procurement systems available, as various systems can share the risk with contractors.

Given the nature of the current Melbourne market, variations to original tendered prices are common, thus the ongoing management of a project to monitor variations can be best monitored with monthly progress claim assessments. Such an assessment values the construction works completed onsite, provides accurate progress payment recommendations and ensures finance draw downs for works completed.

Tough conditions are expected to continue for contractors as larger projects face delay action by union activity resulting in liquidated damages clauses enacted by developers. The future will see construction costs fall as labour becomes more readily available.

