

## Construction Type

Construction Type	Level of Finish		
	Low	Medium	High
<b>Residential</b>			
3br brick veneer project home, level block, shelf design .....	\$885	\$1,095	\$1,371
Architecturally designed executive residence .....	\$1,862	\$2,864	\$4,450
3br, 2 level brick veneer townhouse, including allowance for common property .....	\$1,074	\$1,248	\$1,790
3 level walk-up unit complex, concrete structure ground floor parking .....	\$1,212	\$1,458	\$1,893
Multi-level apartment building, including lift and basement car parking .....	\$1,381	\$1,739	\$2,609
<b>Commercial</b>			
1-2 level open plan offices, including A/C, excluding fitout .....	\$988	\$1,274	\$1,908
1-4 level open plan offices, including A/C & lifts, excluding fitout .....	\$1,101	\$1,294	\$1,964
4-8 level open plan offices, including A/C & lifts, excluding fitout .....	\$1,391	\$1,719	\$2,031
8 levels and over, including A/C & lifts, excluding fitout .....	\$1,799	\$2,175	\$2,626
<b>Industrial</b>			
High Bay Warehouse, standard config, concrete floor, metal clad (size to 3500sqm) .....	\$562	\$621	\$810
High Bay Warehouse, standard config, concrete floor, metal clad (size > 3500sqm) .....	\$497	\$583	\$772
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size to 3500sqm) .....	\$621	\$718	\$994
High Bay Warehouse, standard config, concrete floor, pre-cast concrete wall clad (size > 3500sqm) .....	\$605	\$680	\$929
<b>Retail</b>			
Suburban shopping mall area including A/C .....	\$1,166	\$1,432	\$1,688
Supermarket, including A/C, excluding fitout .....	\$1,011	\$1,107	\$1,286
Specialty shops, including A/C, excluding fitout .....	\$702	\$820	\$935
<b>Hotels/Motels</b>			
Single level boutique motel, including A/C, guest facilities .....	\$1,615	\$2,026	\$2,647
Single level tavern/hotel, including A/C, excluding loose item fitout .....	\$1,415	\$1,777	\$1,939
Licensed club, including A/C, bar, lounge, rec facilities .....	\$1,355	\$1,739	\$1,869
Multi-level, 3 star hotel including A/C, restaurant, bar, common facilities .....	\$2,096	\$2,247	\$2,345

## The Calculation of Construction Costs

The above costs are calculated based on a Gross Floor Area (GFA) rate. Typically GFA can be defined as the sum of the fully enclosed covered floor area and the unenclosed covered floor area of a building at all floor levels, measured in a square metre rate. GFA consists of two elements:

- Fully Enclosed Covered Area (FECA) ■ Unenclosed Covered Area (UCA)

FECA:	UCA:
Includes items such as:	Includes items such as:
■ Basements	■ Roofed balconies
■ Attics	■ Open verandahs
■ Garages	■ Porches and porticos
■ Penthouses	■ Attached covered walkways
■ Lift shafts	■ Usable space under buildings.
■ Staircases	
■ Columns and piers.	

Costs provided are an average price for typical buildings as at the date of publication, allowing for preliminaries, builders profit and overheads. Costs can provide no more than a rough guide to the probable cost of building, as costs can vary significantly based on site conditions, level of fitout and design.

For further construction cost details please refer to our website [www.bmtqs.com.au](http://www.bmtqs.com.au)

### 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.
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- 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. Costs exclude land, demolition and any work outside the footprint of the building. 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.

## Regional Variations

Cairns	118 - 128%
Brisbane	108 - 120%
Sydney	100%
Canberra	96 - 104%
Melbourne	98 - 108%
Adelaide	92 - 102%
Perth	95 - 110%
Hobart	87 - 97%



## The Difference Between a Valuer and Quantity Surveyor

It is quite common for property investors to confuse the services offered by a valuer and a quantity surveyor.

Valuers specialise in property economics, specifically, establishing market values. Valuers usually have an area of expertise, such as the prevailing or forecast value of residential, commercial or industrial property. Licensed valuers conduct large amounts of work on behalf of financiers to determine the value of a property for finance calculations. A market valuation is also used in the calculation of capital gains tax. A valuer determines the perceived "market value" (potential sales price), and is a somewhat subjective result.

In contrast, a quantity surveyor is more scientific and determines the actual construction cost of a development. A quantity surveyor's costing assists in determining whether a development will allow for the required return for a developer, through a combination of input costs: land value, construction cost, sale value and profit.

Quantity surveyors also provide various property services throughout all stages of a building's lifecycle. With regard to property, one of the key services offered is tax depreciation reporting on investment properties. This is where the majority of confusion regarding the two professions presents itself. Industry professionals may advise an investor that they require "a valuation for taxation purposes", correctly known as a tax depreciation and capital allowance schedule.

With regards to property tax depreciation, The Australian Taxation Office states the following in TR 97/25:

- "Unless they are otherwise qualified, valuers, real estate agents, accountants and solicitors generally have neither the relevant qualifications nor experience to make such an estimate".

Furthermore, The Australian Taxation Office states that:

- "Appropriately qualified people might include a quantity surveyor, who has expertise in the relevant type of construction" (taken from TR 97/25A).

It is clear that many property owners and investors require the services of a valuer, to determine the "market value" of a development. However, with regards to determining the construction cost of a development, or the tax depreciation potential of a property, property owners should employ the services of a quantity surveyor.



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## Capital Gains Tax (CGT) & Investment Property Tax Depreciation

In order to maximise any tax depreciation claim, the Division 43 Capital Works Allowance and Division 40 Plant & Equipment must be calculated.

**Division 43** – The Capital Works Allowance is based on the historical construction cost of the building, excluding the cost of all ‘plant’ and non-eligible items. Any residential building, for which construction commenced after 18 July 1985, is entitled to claim a capital works allowance of 2.5% or 4% for 40 or 25 years respectively from the date of construction completion. All income producing buildings, refurbishments, extensions and fit-outs that have commenced construction within the applicable dates should qualify for this allowance. It is noted that the date the Capital Works Allowance applies for non-residential buildings varies to those mentioned above.

**Division 40** – Plant and Equipment allows for depreciation on items such as floor coverings, blinds, stoves, lifts, air conditioning, hot water systems and many other items.

Many property investors are choosing not to claim the Division 43 Capital Works Allowance that they are entitled to, due to the misunderstanding that if the Capital Works Allowance is not claimed they will not have to reduce the cost base of their property when it is eventually sold.

Investors may not realise that under The Income Tax Act the cost base of a rental property acquired after 13 May 1997 must generally be reduced by any Capital Works Allowance that the investor was entitled to claim, **even if no claim was made**. Therefore, some investors are missing out on the tax advantages available through the capital works allowance.

**For example:** Adapted from the NTAA Day 1 2005 Tax Schools Seminar Notes.

On December 31st 2003 David purchased a rental property for \$320,000. He incurred incidental costs (eg legal fees and stamp duty) of \$15,000.

The building was originally constructed in 1991 and David obtained a tax depreciation report that estimated the construction costs of the building at that time to be \$200,000.

In his 2004 tax return David claimed the capital works allowance under Division 43, of \$2,486, calculated as follows:

$$2.5\% \times \$200,000 \times 182/366 \text{ days} = \$2,486$$

On January 20th 2005 David sold the property for \$400,000. He incurred incidental costs (eg selling costs and agents commission) of \$8,000. The property was still tenanted up until this date.

For the 2005 income year, David can claim the capital works allowance under Division 43, of \$2,781, calculated as follows:

$$2.5\% \times \$200,000 \times 203/365 \text{ days} = \$2,781$$

As a result, the cost base of the rental property will be calculated as follows:

Cost of investment property	\$320,000	
Add: incidental costs of acquisition	\$15,000	
Add: incidental costs of disposal	\$8,000	
		\$343,000
Less: Division 43 deductions (i.e \$2,486 + \$2,781)		-\$5,267
<b>Cost Base</b>		<b>\$337,733</b>

The capital gain on the sale would be calculated as follows:

Sale price	\$400,000
Less: cost base	\$337,733
Capital gain	\$62,267

Assuming the capital gain is eligible for the 50% CGT discount, it would be reduced to \$31,134.

**What if David did not make any capital works allowance claim under Division 43?**

In this circumstance, David would still need to adjust the cost base of his property by the capital works allowance to which he was entitled ie \$5,267. Therefore, the cost base would remain at \$337,733.

It is important for investors who purchased their property after 13 May 1997 to claim the maximum amount of capital works allowance available on their investment property. The cost base of their property will generally need to be reduced by the amount that they are entitled to claim, **even if no claim is made**.

### Common CGT Questions:

**What is a capital gain?**

With regards to property, a capital gain (or loss) arises upon the disposal of a CGT asset (basically the sale of an investment property). If upon the sale of that property a taxpayer receives capital proceeds in excess of the cost base, the excess will be a capital gain.

**If I don't claim the capital works allowance will it reduce my cost base when it comes time to sell the property?**

A property's cost base will ultimately affect the amount of CGT an investor will pay on the sale of an investment property. Any capital works allowance that the investor is eligible to claim will result in a reduced cost base, regardless of whether or not a claim is made.

**How is CGT calculated at the time of sale?**

CGT is applied to the investor's profit, which is the selling price minus the cost base (or purchase price) plus incidental costs. Therefore, a reduced cost base will generally result in a higher amount of CGT being paid due to an increased profit.

## A Snapshot of the South East Queensland Construction Market

### Labour Supply:

Shortages in the availability of skilled labour, together with a reduction in the amount of new tradespeople entering the market, is having a negative impact on the construction industry Australia wide. High growth areas such as the South East Queensland construction market are feeling the strain on labour resources, as the demand for construction labour far outweighs the supply.

In some instances, sub-contract labour is being sourced from the Sydney labour market to help meet the supply in South East Queensland, in turn leaving the Sydney market short.

It also appears that no relief is expected in the near future. The population of South East Queensland continues to rise, with subsequent sub-divisions of residential development continuing to add to the urban sprawl, in turn demanding labour. The commercial market is also struggling to meet demand, forcing many purchasers to convert or redevelop old commercial buildings – once again, increasing the demand for labour.

### South East Queensland Construction Rates:

**Location: Brisbane**  
Project Type: Residential Units (Medium Quality)  
Approx. Square Metre Construction Rate: \$1,890 /m2

**Location: Gold Coast**  
Project Type: Single Dwelling/Townhouse (Medium Quality)  
Approx. Square Metre Construction Rate: \$1,550 /m2

**Location: Brisbane**  
Project Type: Commercial Office Fitout (Medium Quality)  
Approx. Square Metre Rate: \$850 /m2

**Location: Sunshine Coast**  
Project Type: Land Subdivision  
Approx. Cost per lot: \$46,000



### Make Good Schedules – “Back to Base” building reports

A topic of conjecture amongst landlords and tenants often occurs at the end of a lease when it is required that the premises are returned to “base” condition. A report that outlines the amount and cost of work required to bring the building “back to base” condition is often referred to as a make good schedule.

Make good schedules can be prepared at various stages of a lease:

- during a lease;
- as the expiry of a lease approaches; and
- after a lease has expired.

Make Good Schedules are usually requested as the expiry of a lease approaches, as both parties have an interest in the cost and work involved to return the premises to “base” condition.

Tenants are able to pay the landlord an agreed fee for the work or arrange to have the work completed by contractors. Quite often many issues arise, such as agreeing to a cost and the extent of work required. This can create major discrepancies and legal issues. A quantity surveyor has the expertise to produce a report for either the landlord or tenant that is accepted as an independent assessment of costs, and is often used as a tool for negotiation between parties.

### BASIX Update

In May 2005, BMT & ASSOC were engaged by The Centre for International Economics (CIE) to conduct an independent costing of the additional commitment required by various developments to achieve compliance with the then proposed BASIX legislation in NSW.

BASIX is a web-based planning tool that will ensure all new residential developments in NSW comply with energy and water efficiency benchmarks, namely:

- 40% reduction in water consumption; and
- 25% reduction in power/greenhouse gas emissions.

BMT & ASSOC found that for various residential development types the expected cost increase would be between 3.08% and 4.21%.

The BASIX legislation was originally due to commence for all new developments as of the 1st July 2005, this was delayed and is now effective as of the 1st October 2005. Furthermore, all residential additions and alterations in NSW will need to be BASIX compliant as of 1st July 2006.

### Latest news:

The Minister for Planning has announced that the BASIX energy target for residential buildings of 6 storeys or more has been reduced to 20%. The target of 25% will apply to all other residential buildings of 5 storeys or less. All residential buildings are required to meet the water target of 40%.