



## TAX TIME - AND IT'S TIME TO DEPRECIATE!

With tax time fast approaching, it's time to start thinking about what you can depreciate on your residential investment property. But it seems that many investors aren't taking full advantage of a property's tax depreciation potential.

I heard an alarming statistic the other day that only 20% of investors fully utilise and take advantage of the tax depreciation benefits of their property.

For example, many investors are under the impression that depreciation is only limited to new properties, when in fact any building, irrespective of age, will attract some claim for depreciation.

Keep in mind that there are three components to a depreciation schedule:

1. Capital works depreciation: based on the original construction cost;
2. Depreciation on plant & equipment: whee items such as carpets, blinds, ovens (and more) can be depreciated at accelerated rates; and
3. Renovations and improvements: this allows for capital improvements done to the property.

There are a number of quantity surveying firms that specialise in maximising the tax depreciation potential for investment properties. For example, quantity surveying firm Washington Brown specialises in the preparation of comprehensive depreciation schedules (even retrospectively). So when it's time to do your tax, all you have to do is present the report to your accountant.

So it's a great idea to do your research and take advantage of all the tax benefits you're entitled to.

## WHAT MAKES DEVELOPERS TICK?

For some years now, developers in NSW have been lamenting the lack of opportunities, with many just sitting on their hands (or cash), and others going interstate to conduct their business.

So it was with great interest that I read about recent research from the Australian Housing and Urban Research Institute (AHURI), which shows that residential developers are more concerned about planning, time frame barriers and unpredictable costs than developer contributions and levies.

The report – entitled ***How do planning requirements impact housing costs and the development process?*** and authored by urban planner and policy analyst Nicole Gurran, urban and economic geographer Kristian Ruming and City Futures Research Centre Professor Bill Randolph – gives a fascinating insight into developers and what their concerns are. It was compiled from 26 case studies and over 30 interviews with developers and other industry stakeholders across 15 local areas in NSW, Queensland and Victoria, with the researchers examining a variety of inner, middle ring and outer metropolitan locations as well as one regional growth area.

According to the report, the largest planning costs are developer infrastructure contributions. Whilst they vary greatly across the states and territories, infrastructure contributions reached up to and exceeded \$100,000 per lot in certain metropolitan growth areas of NSW and around \$45,000 per lot in parts of Queensland.

## OBSTACLES TO DEVELOPMENT

But while these costs are high, developers are more concerned about non-financial barriers such as planning system complexity, uncertain time frames and changing requirements. Smaller developers experience greater difficulties in absorbing unforeseen costs, which reduces the viability of these enterprises, the report states.

Other significant non-financial barriers to negotiating the planning system, which have the potential to significantly impact development costs, included:

- A lack of approval process transparency
- Inconsistent planning requirements across local government areas
- A lack of trust between developers and local councils

And whilst the Australian Government's Housing Affordability Fund and planning reforms that are already underway in various areas go some way to address the barriers, a lack of system transparency, goodwill and resources at the local government level will persist and may continue to significantly delay and add costs to developments.

With all of the above in mind, what are developers doing?

Whilst the developers interviewed for the AHURI report understand that planning costs are inevitable to some degree and thus factor these parameters into their feasibility analysis and overall cost structures, if costs were deemed too high, many developers reported that they would shift developments elsewhere or would not build. In addition, some

reported that dwelling quality would decline in order to maintain profitability margins.

This table\* is a clear indication of the changes in planning related costs from the mid 1980s to 2007, and demonstrates that planning charges have increased disproportionately to median house prices.

	<b>Sydney</b>	<b>Mid-1980s</b>	<b>Mid-1990s</b>	<b>2007</b>
Planning charges		\$5,500	\$21,500	\$99,820
Proportion of charges to house price		3.5%	10.9%	16.9%
<b>Melbourne</b>				
Planning charges		\$2,400	\$7,980	\$29,750
Proportion of charges to house price		1.9%	5.3%	6.8%
<b>Brisbane</b>				
Planning charges		\$1,800	\$5,272	\$43,238
Proportion of charges to house price		1.9%	3.6%	8.4%

\* *Draws on data from the National Housing Supply Council*

## HOUSE PRICES AND THE LOCH NESS MONSTER

Who would have thought that the world's worst financial crisis since the Great Depression could have had its genesis in the housing market – well, the questionable US home loans, otherwise known as the sub-prime mortgage market (it's become part of our vernacular).

Luckily, whilst everyone in Australia was waiting for the sky to fall (plenty of Chicken Littles around), we didn't experience a crashing of the property market like what occurred in America. In Australia, home loans are full-recourse (i.e. loan agreements whereby borrowers give an undertaking to repay the debt even if the funded asset acquired with the loan proceeds cannot be liquidated to cover the loan amount). That's in stark contrast to the US, where a borrower can just walk away from the debt – as happened all over the States – handing the keys to the house back to the bank.

Australia's housing market also didn't suffer like the US housing market due to the much-discussed housing deficit, a situation created by limited land release and development opportunities and the strong immigration numbers and increasing birth rate. Current estimates are of a deficit of 85,000 dwellings – and this figure's expected to grow to more than 400,000 in the next 20 years. Compare that to the US, where in many suburbs there's an oversupply of housing.

So where does that leave the Australian housing market?

There are still many schools of thought – and I imagine there will continue to be.

In one media report I read that house prices will plateau for the rest of the year, based on buyers deserting the Sydney property market at the rate of 1,000 a month. And that's based on the number of loans in NSW slipping from 19,600 in

September 2009 to 14,300 in February this year. Increasing interest rates are obviously having a major impact, as is the phase-out of the First Home Owners Boost late last year.

According to the Westpac Melbourne Institute survey, there was a fall in the number of people believing that "now is a good time to buy a dwelling." It fell from 62% in December 2009 to 42% in March this year. Conversely, those believing the wisest use for savings was "paying down debt" rose to 27%.

Then there's the belief of economist Steve Keen, who at the time of writing was in the early stages of his eight-day 225km walk from Canberra's Parliament House to the top of Mount Kosciuszko wearing the t-shirt proclaiming "*I was hopelessly wrong on house prices – ask me how*".

Keen still believes that the "main bet" over whether house prices in Australia would fall by about 40% over 10-15 years as they did in Japan, is still alive and well. Whilst few are as bearish, many agree with his view that government policy combined with more than a decade of declining interest rates have resulted in higher house prices – which hasn't translated into more (or enough) houses being built.

Let's come back to the moment when Keen headed off on his climb. He was surrounded by supporters including stilt walkers and a dog in a jumper reading "house prices are barking mad." I'm sure Macquarie Group Economist Rory Robertson, with whom Keen made the bet, wished him well. Robertson has promised to undertake the walk himself if house prices ever fell 40%, adding that he would also do it if "Dr Keen proved the existence of the Loch Ness monster."

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