Property Management Newsletter
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RayWhite.

COMMON PROPERTY DEPRECIATION EXPLAINED

Shared assets in strata title lucrative for investors

A strata title is used when individuals own a part of property usually called a 'lot'. This is generally an apartment, unit or townhouse complex which shares ownership of common property including driveways, foyers and gardens.

The ownerships are combined through a legal entity called the owners corporation, commonly referred to as a body corporate. Strata title can include residential and commercial properties including units, apartments, townhouses, retail stores, retirement villages and more.

Strata little accounted for 54 percent of BMT schedules ordered in 2017/2018 up from 49 percent during the previous financial year.

Shared assets within a strata property entitle investors to substantial depreciation deductions, calculated on their percentage of ownership.

BMT review the property's entitlements within the Strata Plan, Building Unit Plans and Plan of Subdivision to determine the exact percentage of ownership and capture every deduction.

When determining the value of common property assets for depreciation purposes, the value is governed by the owner's interest in the asset. As a result, these assets often fall into the low-value pool or qualify for an immediate write-off. This allows Quality Surveyors to apply accelerated depreciation rates to most assets found in common areas.

The low-value pool allows investors to group qualifying assets into an accelerated depreciation pool, meaning greater deductions can be claimed sooner. In a strata title, if an owner's interest in a common property asset is valued less than $1,000, this asset can be pooled and claimed at a rate of 18.75 percent in the year of purchase and 37.5 percent each year thereafter.

If an owner's interest in an asset is less than $300.00, the asset qualifies for an immediate write-off and the full amount can be claimed in the first year.

As common property assets are depreciated based on an investor's portion of ownership, more assets fall into the low-value pool or qualify for immediate write-off. This means owners can benefit from improved cash flow sooner.

The below example displays a section of common property assets the owner of a $595,000 two-bedroom, two-bathroom apartment could claim. It highlights the first and second year deductions based on the apportioned cost of the assets shown.

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Common property depreciation explained

Common property asset	Apportioned value of the asset	Depreciation rate	First year deductions	Second year deductions
Lifts	$8,286	6.7%	$555	$518
Ventilation fans	$1,591	10%	$159	$143
* Carpet	$850	37.5%	$159	$259
* Hot water systems	$974	37.5%	$183	$297
* Intercom system assets	$997	37.5%	$187	$304
** Air conditioning	$208	100%	$208	$0
** Automatic garage door motors	$45	100%	$45	$0
** Gym assets	$225	100%	$225	$0
TOTAL	**$13,176**		**$1,721**	**$1,521**

The figures in the table have been calculated using the diminishing value method
*These assets have been added to the low-value pool
**An immediate write-off has been applied to these assets

Have you thought about buying another investment property?

4 Holbert Cl, Tea Gardens NSW 2324

3 bed, 1 bath, 3 car

Great opportunity to break into the property market with this new listing, a solid family home situated in a quiet street, close to parkland and the shopping centre at Myall Quays Estate, Tea Gardens.

This property could be rented at $400-$420 per week

$529,000

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ARE YOU UNDERINSURED?

Property insured and depreciation

The 2018/2019 Banking Royal Commission's probe into the insurance sector brought to light widespread misconduct and breaches of the Insurance Code of Practice.

One issue that was raised was underinsurance, where policyholders were led to believe that their policies covered the full replacement of their properties but discovered their cover fell short when they made a claim.

Alarmingly, research from Insurance Australia Group Limited has found that one in twenty Australian home owners fail to renew every year.

An Insurance Council of Australia survey also found 83 percent of Australians are underinsured for home and contents. For property investors, this means facing considerable losses and risking financial hardship in the case of major tenant damage or a natural disaster.

It's more important than ever to know the true replacement cost of your property and assets contained to ensure you are adequately covered.

While you may have known the replacement value of your property some time age, construction costs fluctuate. This means your current insured value is easily outdated, putting you at risk of underinsurance.

An over insured property can also lead to owners outlaying more money on higher premiums that provide unnecessary cover.

In the case of damage, investment property owners may be entitled to claim additional tax deductions on the building structure and contained assets.

If the owner receives an insurance payout, a balancing adjustment will need to be calculated for destroyed assets.

The balancing adjustment is determined by comparing the asset's termination value with its adjustable value at the time it was destroyed. The termination value is the amount received for the asset such as from the insurance payout while the adjustable value is the purchase cost of the asset minus its decline in value.

If the asset was used solely for income –producing purposes and the termination value is greater than the adjustable value, you must include the excess in your assessable income. If the termination value is less than the adjustable value, the difference is an allowable deduction.

In circumstances where no insurance claim is lodged, owners can claim the total undeducted value for assets removed and scrapped from within the property.

Often, there are still thousands of dollars of depreciable value left in destroyed assets which can be claimed immediately by property Investors. It's more important to contact a specialist Quantity Surveyor if assets are damaged as a site inspection may be required to determine replacement values.

The Royal Commission highlighted the importance of accuracy when it comes to property replacement costs and adequate insurance. Quantity Surveyors have the required skills to estimate construction costs.

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