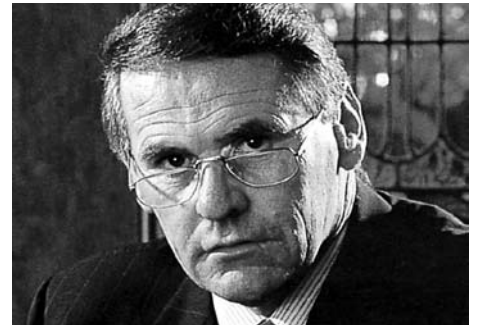




► **LANG WALKER** Executive Chairman of Walker Corporation

Buy brollies in sunny weather



Q: Why did you choose to invest in residential real estate?

A: I invest in and develop residential property based on demographic data – which identifies where the population is expanding and what sort of people they are. There is always strong demand for good quality housing near the water and that is what I concentrate my investments on.

Q: What are the benefits of investing in this market?

A: There are many benefits investing in residential real estate. There is always demand for good quality housing in areas where there is sense of community and access to a range of lifestyle facilities, public transport and water – epitomized at my latest development - Rhodes Waterside in Sydney.

Q: If property runs in cycles (as many experts state), what would your advice be when coping with the troughs as well as the peaks?

A: In many city areas we are seeing a pause in demand, largely due to the interest rate rise. However I believe that good quality real estate will continue to be in good demand and represents a superb long term investment – coping easily with the cycles.

WELCOME TO THE BILL



It's a funny old world. This is our second issue of The Bill and here we are with Lang Walker – one of the most renowned property developers Australia has ever seen – on the cover.

I remember buying a unit from him seven years ago when Walker Corporation developed the Finger Wharf at Woolloomooloo. Forty odd years before that, my wife's mother (and a shipload of other Italian migrants) arrived at that very same wharf after a month long journey at sea. She was 18 and had a suitcase full of dreams.

I bet she never imagined that her daughter and son-in-law would one day own a unit there!

As we come to the end of another financial year, thanks for the continued support and I hope you enjoy issue 2.

TYRON HYDE
Director, Washington Brown



CONTINUED OVERLEAF ►

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Tyron Hyde – The ins and outs of legitimate tax deductions for depreciation on investment properties.

“Negative gearing is one of the few tax breaks left for income earners these days and I strongly recommend it.”



Q: Why should the ‘average mum and dad’ consider investing in a property development?

A: Mums and dads should consider investing in a property development because quality projects attract good rental returns and capital growth. They are also becoming very popular with young couples and families.

Q: What type of research should people undertake when considering investing in a property development?

A: They should understand the values in the area and how the developer’s other projects have performed over time. They should look for quality design and expected demand from owner-occupiers, other investors and lessees.

Q: Where do you see the residential property market (as a whole) moving within the next 10 years? And specifically investment?

A: Despite there being a pause currently in the market, I believe the residential property will continue on its growth path over the next 10 years. It will also be subject to cycles, like other investments, but the facts show that it is a safe investment haven with the potential for strong returns. In view of the rising construction and land acquisition costs developers now face, there is only one way property prices are going to go over the long term – up!

Q: Is now a good time to buy?

A: The old investment adage, “always buy umbrellas in sunny weather” applies today. While the market has paused, this is the time to be on the move and pick up good value properties. Off the plan purchases are a great way to lock in a good price now and enjoy the inevitable upswing in the market when the house or apartment is completed down the track – particularly as construction and materials costs spiral and prices inevitably keep rising on the back of that.

Q: Is negative gearing not a recommended strategy anymore? ie some experts say properties should have positive cashflow or positive gearing.

A: With the economy running so well and only 5 per cent unemployment, most people in Australia have never had it so good. Negative gearing is one of the few tax breaks left for income earners these days and I strongly recommend it.

Q: How important is a well thought out investment strategy?

A: It is crucial to have a strategy and goals when investing in any asset class. A well thought out strategy involves spreading your investment dollar across a range of sectors and areas, if possible, as you do not want to put all your eggs in one basket.

Q: What are some of the fundamentals everyone should consider in an investment opportunity?

A: They should consider the location of the property, its access to infrastructure and what leisure facilities are nearby. Of course, if they are looking for a great investment in Sydney, they should buy one of our fabulous apartments at Rhodes Waterside off the plan!



Sinking fund changes a blessing in disguise

► **TYRON HYDE** Director, Washington Brown

The Tax Office has made changes to how it treats levies paid into strata schemes, bringing the focus back onto long-term sinking funds and the need to ensure there is always plenty of money in the kitty.

There have been two important developments affecting sinking funds.

First, the New South Wales Government has brought in new regulations requiring all strata schemes registered after 7 February 2005 to plan ahead for the next 10 (ten) years.

Owners' Corporations, or specialists such as Quantity Surveyors, need to work out the likely expenditure required for that 10-year period. For new schemes the 10 (ten) year sinking fund must be on the agenda of the first annual general meeting.

Sinking funds are used to pay for such expenses as:

- painting of the building
- replacement of fencing
- driveway refurbishment
- replacement of common property items such as carpets, roofing and guttering
- lift overhauls.

Second, the Tax Office has ruled that not all strata levies are deductible - specifically, special levies that are of a capital nature cannot be claimed as an outright reduction. This applies across all States.

The 10-year sinking fund plan requirements are being introduced in stages for all strata schemes:

PHASE 1

Strata plan no. 50,000 and above (not including those already covered by Section 75A) will be required to commence 10-year sinking fund planning from 1 July 2006.

PHASE 2

Strata plan no. 30,000 – 49,999 to commence from 1 July 2007.

PHASE 3

Strata plan no. 10,000 – 29,999 to commence from 1 July 2008.

PHASE 4

Strata plan no. 1 – 9,999 to commence from 1 July 2009.

This means that by the second AGM after the commencement date relevant to the strata plan number of the scheme, a 10-year sinking fund plan will have to be in place.

Despite the commencement date relevant to the particular scheme, there is no impediment to owners corporations voluntarily commencing their 10-year planning arrangements earlier than required.

So, putting these measures together, what does this mean for strata owners?

The changes in NSW mean owners' corporations of all strata schemes that came into existence after 7 February 2005 must begin planning for their sinking fund needs for the following 10 (ten) years.

On the surface, this may seem a bit scary: owners having to budget to pay for 10 years worth of works and maintenance. But when you consider the Tax Office changes, the 10-year sinking fund may well be a blessing in disguise. Here's why:

If there isn't enough money in the sinking fund to cover major works, then a special levy has to be called for. And here's the deal: while all monies paid into a sinking fund are fully tax deductible over the years they are paid in, if a special levy is required, it's possible only about 50 per cent will be deductible.

Washington Brown has a special division dedicated to helping Strata Managers and Owners' Corporations comply with the legislative changes.

The following case study shows how important it is as an investor to ensure you pay on an ongoing basis to maximise your tax deductions.

Washington Brown Quantity Surveyors recently worked on a building in Bondi, NSW, where the following work was carried out:

• Spalling concrete	\$37,000
• Lintel repairs	\$10,000
• Balcony slab spalling	\$50,000
• Brick replacement	\$3,000
• Crack rectification	\$3,000
• Re-membrane roof	\$25,000
• New aluminum windows	\$205,000
• Replace balustrades	\$40,000
• Repair drainage	\$75,000

Total: \$488,000

In this example, Washington Brown determined that replacement of the balustrades and windows was not a repair, but a capital improvement. The owners' corporation had to replace all the windows and balustrades with better product and material.

If the owner's corporation had \$488,000 in the bank, there would be no need for a special levy and the investors could claim the full amount as a tax deduction over the previous years.

But as so often happens, the sinking fund had a minimal amount in the kitty. A special levy was called, with everyone required to top the fund up substantially. Sadly, only about 50 per cent of the expenditure (about \$200,000) was deductible.

The rest had to be treated as a capital expenditure and claimed at 2.5% per annum, **OUCH!**

Depreciation for profit

► **TYRON HYDE** Director, Washington Brown

LEGITIMATE tax deductions for depreciation on investment properties can be worth hundreds of thousands of dollars for the wise property investor.

But all too often, these highly valuable deductions are overlooked. That's why it's important for property investors to investigate whether they are entitled to any tax deductions on their investment property.

The easiest way to find out is by contacting a reputable quantity surveyor such as Washington Brown Quantity Surveyors offering some form of minimum guaranteed return, or the report will be provided at no charge.

The quantity surveyor will ask a few standard questions to ascertain whether it is worthwhile for both parties to proceed. The fee to prepare a tax depreciation schedule is 100% tax deductible.

Let's see how you can benefit from your property's tax deductibility.

For instance, on a brand new two-bedroom unit in a high-rise building with a purchase price of \$600,000, tax deductions can be worth nearly

\$300 a week, and a total claim of between \$280,000 and \$330,000.

Let's look at another example, this time a \$620,000 renovated inner-city, two-bedroom terrace: in the first year, your tax deductions would be worth up to \$8,000. That's \$150 a week, or a total claim of between \$125,000 and \$150,000.

One important piece of advice is not to go around looking for property on the basis of what's going to offer the best tax write-off. Investors should always focus on buying a property that will achieve the highest return (yield plus growth) and let the experts worry about depreciation.

As a general rule, new high-rise apartments in a large complex will obtain the highest rates of depreciation because they have a lot of plant and equipment in their facilities, such as lifts, security systems and gyms.

However, the difference in tax depreciation allowances between a new property and the same property a year later will be minimal.



New high-rise two-bedroom apartment – purchase price, say \$600,000

First year claim	First 5 years claim	Total plant & equipment	Total claim
\$13,000–15,000	\$50,000–\$65,000	\$50,000–\$60,000	\$280,000–\$330,000

That's nearly \$300 per week in tax deductions!

Inner-city renovated terrace – heaps of deductions are still available

First year claim	First 5 years claim	Total plant & equipment	Total claim
\$7000–\$8000	\$25,000–\$35,000	\$15,000–\$25,000	\$125,000–\$150,000

That's nearly \$150 per week in tax deductions!

