QS Corner

TIP #18

Welcome to QS Corner! This month we look at how to make the most of the GFC…

When depreciating an investment property, the original construction cost must be used.

Many of our clients are now buying properties at dramatically reduced prices – nearer to the original building cost thanks to the GFC.

This is most notable in some commercial property transactions I have seen.

So the tip is to make the most of the current market conditions and search for properties where the actual construction cost is close to the current purchase price.

By way of example, we had a client who bought a property in Sydney's western suburbs for $350,000 last week. It was a three-year old, three-bedroom unit.

We were the quantity surveyors on the project – and I know the original construction cost for that unit was $285,000. But its purchase price – brand new – was $445,000.

Guess what? We still use the original construction cost as the basis for depreciation for the incoming property investor.

So not only has the new purchaser paid less stamp duty and increased their chance of a capital gain – their depreciation deduction relative to the purchase price has also increased.

So this property would be cash flow neutral at worse – cash flow positive at best.

Tyron Hyde is a director of quantity surveying firm Washington Brown.

For more QS Corner tips and information on property depreciation including a FREE online tax depreciation calculator, visit ***www.washingtonbrown.com.au***