

Investment Property Newsletter

This newsletter provides helpful information for property owners seeking to better their returns and minimise risks and those considering investment property ownership.

OUR OTHER NEWSLETTERS

- Self-Managed Super Fund
- Towards Better Business
- Business valuation

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A NEW ATTRACTION TO COMMERCIAL PROPERTY

We can recall a time that internet purchases were new and people were extremely reticent to buy anything, let alone provide credit card details, over the internet. Fast forward to today, the internet is used constantly to purchase just about anything, to the point many shop-based retailers have disappeared. While there has been a change in our behaviour by embracing the internet, the way online goods are handled by retailers has also changed. This is because technology has become more sophisticated allowing goods to be packed and sent quickly, and it's happening in warehouses.



Demand for inventory storage, distribution centres and retail warehousing are in line with the general rise in online shopping in Australia. This demand isn't just from the mega-corporates, such as, Amazon but also from the smaller operators that need small sized locations (such as small factory sites) to distribute their product.

Food processing and storage facilities are also highly sought after, as businesses take advantage of rising export demand.

The demand for the commercial property is further fuelled by low interest rates and a weaker Australian dollar making local investment desirable by foreign investors.

The sales figures for warehouse type commercial properties in Australia is on an upward trend according to research by Colliers International and there doesn't seem to be any reduction in demand from investors.

The same building write-off concessions exist for commercial properties as it does for residential investment properties. In conclusion, increasing demand, low interest rates and tax concessions provide an equation that could make investing in a commercial property worth considering.

RECONSIDER YOUR PROPERTY TRAVEL PLANS

The Federal budget in May 2017 brought in a significant change that impacts investment property owners from 1 July 2017. Owners of residential investment properties will no longer be able to claim a tax deduction for travel costs to inspect and maintain their residential investment properties.

The government thinking behind the change was to stop abuse by some investors that claimed their annual holiday travel (in the same location as their rental property) as a tax deduction. Unfortunately, the government has stamped out legitimate travel claims for most property owners.



What can you do? If you previously travelled to your property to deal with an issue, consider if your real estate management agent can attend to the matter instead. At least their management fees are tax deductible. Also, if you are looking to purchase a rental property, consider the location of the property in light of the new law... as you may be better off having a property close by compared to an interstate property if you are going to conduct your own inspections and maintain the property.

THINKING AIRBNB FOR YOUR PROPERTY?

Much has been said in the media about Airbnb being the biggest "hotel network" in the world, and there is no mistaking its popularity for many travellers, due to the location of the rooms and comparative price.

Many home owners in Australia are jumping on the Airbnb band wagon, and it does make sense if you have a spare room or two in a house located in a highly desirable travel spot. But there can be a sting in the tail for owners where the property is also

their principal place of residence. Under normal circumstances, a person's principal place of residence is exempt from Capital Gains Tax (CGT) when it is sold. However, when such owners rent out part, or all, of their home, they become liable to CGT when the property is sold. The CGT amount is determined by the proportion of the floor area used to rent and the period it used for that purpose. This is not an issue however, for those that purchased their house before 20 September 1985.

GET ON PACIFIC EASTCOAST'S PROPERTY WATCH LIST

For almost four decades, Pacific Eastcoast (PEC) has made a business of identifying extremely high quality pre-public property developments and then making recommendations to accounting firm clients. They were originally an accounting firm, so they understand investment returns.

PEC carefully chooses developments with high rental income and capital growth potential. Projects must meet PEC's stringent criteria and as such, they are mainly boutique with very high-quality fit-outs and typically, located within 10-12 kilometres from the CBD (but not in the CBD) with easy access to trams and trains. Investments in holiday locations or restricted use properties such as serviced apartments and dedicated student accommodation are avoided.

The resultant projects meet "investment grade" criteria that tend to be immune from value reductions during a property price correction. There is strong owner-occupier demand for high net-worth individuals hence the properties attract high-end tenants. Examples of developments where PEC has advance access not

available to the public include Tim Gurner in Melbourne and, pictured below, Aria Group in Brisbane.



For investors, the projects include tax schedules allowing maximum write-offs. As the projects are off-the-plan, investors have time to save additional funds during the settlement period and their initial deposit is held in trust and earns interest that accrues to the investor.

Contact us now to be added to PEC's watchlist. This means they will liaise directly with you (in conjunction with this firm) to present opportunities that fit within your budget.

BOOST YOUR DEDUCTIONS



If your rental property does not have a tax depreciation schedule, contact us and we will organise it for you. The schedule contains information about the property's construction costs. This allows a tax deduction for the cost of the building spread over many years. It will provide substantial annual non-cash tax deductions. For example, a building costing \$300,000 will provide an extra \$7,500 deduction each year without having to pay this amount.

If you are on the highest tax rate, that translates into a \$3,675 tax saving each year. The schedules are completed by licensed quantity surveyor and the cost is 100% tax deductible.

MARKET UPDATE

How is the Melbourne market?

Auctions – August to October 2017

Date	Auctions*	Success
5-Aug	563/762	74%
12-Aug	548/751	73%
19-Aug	602/772	78%
26-Aug	643/836	77%
2-Sep	543/745	73%
9-Sep	564/773	73%
16-Sep	734/992	74%
23-Sept	740/987	75%
7-Oct	597/807	74%
14-Oct	657/877	75%
21-Oct	693/924	75%
28-Oct	1194/1512	79%

Guide to Success rates:

Over 70% - Market very buoyant. Prices rising strongly.

60% to 70% - Demand fair to good. Prices flat or increasing.

Below 60% - Fair at best. Prices level or falling.

*Based on Reported Auction Results Scheduled across Melbourne (Sold on the day or prior to auction).

Information provided by Bruce Renowden
www.renowdenbuyersadvocates.com.au

TAX CHANGES



From 1 July 2017, plant and equipment contained in a residential property purchased after 7:30pm on 9 May 2017 can't claim depreciation on those items. The good news for investors is that properties purchased prior to then are not affected. This means you can continue to claim plant and equipment depreciation as normal. No part of this change impacts building depreciation as that will continue unchanged. Depreciation of plant and equipment for commercial properties is also unaffected.

ATO AUDIT INSURANCE

The ATO is obtaining information from the land titles office, banks, insurers and other third parties for cross-checking to information in tax returns. In the event of an audit, professional help will likely be needed to defend and protect your position. This will be expensive. To alleviate costs, we offer our clients "Audit Shield" insurance.





The policy covers our fees (including legal costs if necessary) and the premium is tax deductible.

OUR PROPERTY INVESTMENT SERVICES

- Rental property tax advice
- Rental property tax return preparation
- Rental property cash flow calculations
- Tax depreciation schedules for building write-off
- ATO audit insurance and representation
- Advice and assistance with investment property ownership using a Self-Managed Super Fund
- Connect you with our trusted mortgage broker



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