Free Government Money for all Property Investors

Dymphna: Welcome everyone to iloverealestate.tv. Okay, well as promised I've got my very special guest here. We've been at the Iloverealestate Super Conference here in Brisbane and I've dragged him away out of the room to talk to everybody here on the podcast, so my very special guest today is Tyrone Hyde. Now he is somebody who can really maximise your tax deductions. He can get out there and really turn something that might have been a negative cash flow property - you all know how I feel about that - into something that could actually be a positive cash flow property. He's the man you definitely need to know. Now, he's got a little bit of an interesting background. He went to work straight after uni and got involved with this company a bit further down the track and he loved it so much, he actually went out and bought the company. Can you believe it? It sounds like the Remington ad.

Tyrone: It was Washington Brown - loved the company so much I bought it.

Dymphna: Washington Brown. So just tell me Tyrone, what do you actually do?

Tyrone: Well my profession is Quantity Surveyor. In summary, we work out what these cost to build. The company has been going for about 30 years and I started there as a cadet, 22 years ago, and I wrote a thesis on the effects of property depreciation and residential investment property.

Dymphna: You are an exciting man.

Tyrone: Well Dymphna I've got to tell you, it wasn't the best pick up line as a 24-year-old. But once every seven years when the property market goes up, people are interested in what I've got to say.

Dymphna: So I guess you fared okay with the pick-up line eventually.

Tyrone: Yes, eventually.

Dymphna: That's why you bought the company, right?

Tyrone: Well in reality, luckily I met my wife when I was 17, so she's known me for that long.

In terms of depreciation we help a lot of property investors maximise their tax returns in regard to property investment.

Dymphna: So let's get into that a little bit more detailed. First of all, quantity surveying?

Tyrone: Yes.

Dymphna: Really? As an industry, it really didn't come into play until the 18th of July 1985 when depreciation came into legislation.

Tyrone: That's true. I think the actual industry itself has been around since 18th century in terms but generally the old school quantity surveyors, they would purely be involved in measuring and counting bricks and...

Dymphna: For what purpose?

Tyrone: For the purpose of, working out what the construction costs were for builder, so a traditional quantity surveyor in the old days would measure...

Dymphna: Like an estimator.

Tyrone: An estimator would literally work out how many bricks are going to the project. How many nails. How many bolts - they got down to that much detail. It wasn't the most exciting profession that you could imagine but luckily for me, I think what we do as quantity surveyors has now evolved into depreciation side, so it gives another spin to what we do. It's probably the side now that is more recognisable in terms of publicity and so forth. I guess what you're referring to is no one would have know what a quantity surveyor is in the property investment industry unless this ruling came out in 1992 that said quantity surveyors are the best people to work out the construction cost, and the costs that are unknown. Now I still would say that most don't know what quantity surveyor is because I have to lie sometimes Dymphna and say that I'm valuer.

Dymphna: Oh really?

Tyrone: Because people understand that a lot more than what a quantity surveyor is, so I'll say, "Look I'm a valuer," but I'm valuer of what things cost to build, not buy.

Dymphna: When I first got out of uni and was doing accounting and all that kind of stuff dealing the private clients and things, then depreciation came into play on the 18th of July 1985.

Tyrone: That's right.

Dymphna: And suddenly we could claim a tax deduction for the carpets and curtains and all of these things.

Tyrone: Yes.

Dymphna: And you could claim a tax deduction for the actual structure of the building.

Tyrone: That's right.

Dymphna: And yes, it's changing rates and things over the first couple of years and after 1987, that kind of settle down a little bit to a 2½% for the structure.

Tyrone: Yes.

Dymphna: But in those early days - I remember them very well – a client would come in to do their taxes and bit and pieces and they've got to rental property and we're trying to work out the depreciation change, and we go, "We'll the carpet was about $3,000, wasn't it?" Yes, let's write down $3,000 and the hot water system was around about $800, so you put down $800 for that.

Tyrone: Yes. It's funny that you say that because how I actually got into this area was because we were doing this at the time, and a client might say "I normally do this but it's a bit of a bigger property. Can you do this - I think you might be better doing this, right? And still went out to the property, came back, and I put on something like, well there's one lift and I said about a $100,000. He goes, "$100,000," he goes, "For something like that I would have put about $600,000".

Which is hence why I think the ATO in 1997 said, "Well hang on. We actually think, we need some people that actually know a bit about construction cost to do this, not accountants, no offence.

Dymphna: No, no, no, no.

Tyrone: Yes, so we do go out to the property, unlike accountants, to talk to them. We actually measure how may square meters of the carpets, so we can justify what price we put on items, so with that and we paint pictures and after we have a depreciation report for our clients, if they want us to show them what we have done, I can give them a full excel spreadsheet of how many square meters of carpet. How many square meters of blinds. How many light fittings. What type of light fittings. What type of oven, etc. So if they get audited in five years time we can say how we got those numbers and here they are.

Dymphna: Yes.

Tyrone: This is what we've done.

Dymphna: So it must be very gratifying to you to basically have your whole industry and your job and your career and your business and everything legislated because we have to have you.

Tyrone: I feel blessed in some ways Dymphna.

Look it's funny that you say that because because I've been doing this for so long, I see so much change. The ATO has tinkered with with what is and what's not depreciable so often, finally, and you have hit the nail on the head, this is what you will do because what they were doing for many years was every quantity surveyor had a different view on what was considered time equipment and what was considered part of the building. So every quantity surveyor including myself would err on the side of the clients - so everyone would say kitchens are a part because there is no specific legislation of what wasn't and what was - so we will say, "Yeah, we think kitchen are part of equipment, let's claim over five years, not the 40 years." The ATOs saw all of these different reports and all these different opinions and finally put out the rulings saying this is what you can do and what you can't do. In my view, they've gone, they've erred on the side of too much caution, now Dymphna. They say to us property investors that the kitchen is going to last 40 years from the time it was brand new.

Now I want to say that if my kitchen lasts to 40 years, my marriage won't.

They also say that down lights are going to last 40 years. I change them every year.

Dymphna: Yes, that's true.

Tyrone: So this is what – once they've had this ruling and you have to abide by them. I didn't agree with it as well.

Dymphna: But, I mean the tax office really has put out all this rhetoric on how things have to be done but then as time goes by the light fitting there, the down light, it blows, you're going to replace it, so the new cost comes in.

Tyrone: Yes, but this is the issue that I'm referring to and I think that by going so cautious, there's going to be millions upon millions upon millions of dollars not claimed, why?

Because the kitchen that is only 20 years old, the taxpayer or the property investor doesn't know what the residual value on that kitchen is, right? Because as a quantity surveyor, we don't give you a list of every brick that goes into report, we say, "Here is the $200,000 construction cost of which $20,000 is ovens, dishwashers, etc.," so you're kitchen component is in the brick work, mixed up with all the bricks and the gyprock in the windows, right? So when in 20 years time, that kitchen that the ATO said it's going to last 40 years doesn't because the ruling never took into account taste or never give any option to taste, right? Because taste changes, it might structurally last, but trends change and you would have change with the times.

Dymphna: That granite bench top over that laminex lime green...

Tyrone: That's right. Exactly, because I want to get a tenant.

So when you do replace a 20-year-old kitchen, you as a property investor don't know what is left claimed on that kitchen.

Dymphna: Right, yes.

Tyrone: So you rip it out, you put in the new one, yes you claim the cost of the new one but people aren't claiming what was left to go on the old one, so the tip here is to get Washington Brown out before you pull it out.

Dymphna: Yes.

Tyrone: Absolutely, we'll put a value on it, so what will you think it cost $10,000, 20 years ago, there is $5,000 left to go.

Dymphna: So in that year when you replaced your kitchen, you will not only get the depreciation of the new kitchen's that cost $10,000, but you get the value of the previous kitchen, the $5,000 left unclaimed that three owners ago that put it in.

Tyrone: Absolutely right.

Dymphna: That is really cool.

Tyrone: Absolutely right.

Dymphna: That is the major thing that investors need to know.

Tyrone: Absolutely, absolutely. And I wrote an article on this that in my view that they have gone too conservative but that's all like the things we're now considering will last 40 years are shower screens. I have a lot of investment properties in my life and shower screens have never lasted me 40 years.

Dymphna: No.

Tyrone: What else? Kitchen cupboards, vanities, down lights as I said, certain lights, so there's lot of things.

Dymphna: What are carpets these days?

Tyrone: Carpets are about 10 years.

Dymphna: That's pushing it.

Tyrone: It depends, 10 years but eight for commercial, but at least with carpet and some items you can make the determination on what you think it will last. For instance, McDonald's will say "Well our ovens will only last one year because we use every minute to pump out the hamburgers and those things." But brick work and concrete, you have no right to make a determination for how long you think it's going to last. You have to use the 40-year rule.

Dymphna: We're talking about kitchens there before, does the same thing apply for like a say, a sleep out? It's part of the building and it got knocked down and a two-bedroom extension got to put there in its place. Would the same apply to that piece of building that got knocked down?

Tyrone: You mean a granny flat?

Dymphna: Sorry, it's Queensland term.

Tyrone: Right, I'm from Sydney.

Dymphna: It's an enclosed part of the building.

Tyrone: Yes, it will be part 40 years, it provided with structure, for that will be consider a structure improvement, okay.

Dymphna: We'll get that on new bit we'll put on but production claim on the bit we pulled down.

Tyrone: Yes, yes.

Dymphna: So we need you out there twice.

Tyrone: Yes, and pay me only one and a half times because I'll give you a discount because I'll go out there twice.

Dymphna: Oh there you go. So we'll get you out before we do any major construction or remodelling...

Tyrone: Yes.

Dymphna: Or renovation of any description because that crystallises the depreciation of the bit we are going to pull out or renew.

Tyrone: Provided that according to the recent ruling that it has been used as an income-producing asset before.

Dymphna: Yea, we're talking about investment property, that's good.

Tyrone: Yes, so you can't just buy a property, renovate it, and claim any residual values.

Dymphna: No, this is the property that we bought and we've got rented out and now we go and kick out the tenants.

Tyrone: Right, just pretty common.

Dymphna: Yes really. We're going to extend it. We're going to do this, we're going to do whatever. So we get you in before we are going to do anything

Tyrone: Yes

Dymphna: Well actually. When we buy the property is when we get you in.

Tyrone: Yes, that's right.

Dymphna: Then we'll get you back in after we've done the remodel and you go, "Here's the new schedules for the next period of time coming."

Tyrone: That's right.

Dymphna: Okay, what happens when you buy a property off another investor and they've already had a quantity survey come out, can we use their quantity survey report?

Tyrone: Very good question. You're an accountant, aren't you?

Dymphna: Yes

Tyrone: Okay I would say, well firstly what happens is, this is what is supposed to happen. The law is such that there is a very few people who know this that the transfer of information is supposed to go from when the developer builds the property.

Dymphna: Yes.

Tyrone: He is supposed to give that out to the purchaser.

Dymphna: Correct.

Tyrone: The builder allowance component, right? He then supposed everything he's transaction, he is supposed to hand that on, it never happens. It happens a lot in a big commercial transaction because Westfield's will want to argue that I'm paying x, y, z or selling my air conditioning for $4M, your buying it for 3.

Dymphna: Because you don't – they don't want to make a profit on the sale.

Tyrone: That's right, but in residential it doesn't happen but if it did happens, so if you were offered that – if we came part of the contract, we're going to see it, if I as an investor, put in to the contract, that here is the original report from the developer, there is the actual building cost, and I put in to the sales contract, then my written down values, for that oven of $500, you really don't have any – that's why you're paying for that item, right?

Dymphna: Correct. But it hardly ever happens.

Tyrone: I don't think I've ever seen it in residential but it's...

Dymphna: I've seen in few contacts where they say that the say that the fixtures and fittings are being sold at written down value and here's the quantity surveyors report that I got 10 years ago.

Tyrone: Yes, yes, yes.

Dymphna: In accordance with...

Tyrone: If it's in the contract, we'll that's then you limit it. If it's not in the contract, then I would argue that you would work out what you've paid for those items based upon the purchase price of property.

Dymphna: So effectively the tax office then is missing out - if that's the case and we get you back in after we bought the place.

Remember the oven was written down in value at $500 but when you come in you say, "Well, it's the depreciated value of that and that..."

Tyrone: Yes.

Dymphna: It's $800.

Tyrone: Yes.

Dymphna: Effectively, the tax office is missing out on the sale of the fixed asset to the seller of $300.

Tyrone: It could do, it could do, that's right.

Dymphna: I am going to jump on that. There are loopholes all over the place.

Tyrone: The argument there is that the purchase price has gone up. Who are we to argue what the purchase price is? See that computer there Dymphna...

Dymphna: Yes.

Tyrone: You've bought it for $2000 today, right?

Dymphna: Right.

Tyrone: You depreciated it down to $1000.

Dymphna: Yes.

Tyrone: You put on eBay and I'll pay $1,500 for it. What's my opening written down value?

Dymphna: Yours is $1,500.

Tyrone: Correct.

Dymphna: I've made a profit on sale of $500.

Tyrone: Exactly, but that's right. So I'm starting with a no loss because that where I'm paying the fair market value.

Dymphna: Yes.

Tyrone: We represent the buyer, that's what we do. The $500 miss is, well I guess the problem with that is the actual...

Dymphna: With the computer, I would declare it because it's an item that I use for my business and therefore any gain that I make on that, I have to declare and on that income but when it's on a house and it's all mixed up in the melting pot of whatever it is.

Tyrone: That's right, exactly.

Dymphna: The tax office is actually missing out

Tyrone: Well they could be but they're also getting because that will only ever occur where the property prices have gone up, so in other ways, they're getting different they're getting higher taxes elsewhere and they want the stamp duties elsewhere etc., that's from that state government as opposed the federal government, so it does, I guess the issue there is...

Dymphna: I didn't like arguing in favour of the tax office either.

Tyrone: No, but this is a fact of life, so the issue there though is how would one would ever work that out because then you've look at different tax returns and it's a nightmare.

Dymphna: I'm sure the legislation is against but anyway...

Tyrone: But they have, they already have because the building allowance, you have no right to put in the value of what the construction cost are. Well we're talking about, the ovens and fixtures, right? Which in the $400,000 purchase price, you're talking 5%, right? So it's not – in the big picture whether it goes into the report of 5% or 6% in the overall big scene, they probably said it's too hard the transaction is trying to work that out.

Dymphna: Yes.

Tyrone: Is more of an organisation, I mean then what the difference they're losing there.

Dymphna: Yes, fair enough.

Tyrone: And that's only assuming that the quantity surveyor does get involved like it doesn't happen always and if we've got, we don't know what someone has sold down on that – we don't know, so we go either, we'll bases on the purchase price. We think you paid $1000 for the oven.

Dymphna: Occasionally, if you're buying off an investor, another invest that you'll say that did you get the quantity surveillance report and can I have a copy of it because anything is kind of pick up and carry on from there if you choose to but most of the time, a lot of the time you'll have a mum and dad who live in the house.

Tyrone: That's right, exactly. That's where it's gets more confusing, that's right.

Dymphna: And then everything gets lost.

Tyrone: Exactly, exactly. And if I am selling to an owner occupier, and I ask if they want a depreciation schedule - they don't care – they don't ask, they don't care.

Dymphna: That's right.

Tyrone: And if the legislation is such which it is now, that once that brand new unit is sold and then transferred, once that owner occupier comes in and buys, they don't care, they don't ask for it.

Dymphna: No.

Tyrone: And why do they care, it's just more of a paperwork nightmare for them to ask what the price of construction was of four purchases ago that they have no interest because they're then owner occupier. They have never done that.

Dymphna: The other thing that I see quite often with investors is, they buy an old place. Some of them are in Sydney place and Melbourne, they are all older properties and they might have been built back in 1950s, before depreciation and everything else came into play and they think it's not worthwhile, to getting quantity surveyor in because they can't claim any depreciation anyway.

Tyrone: Yes.

Dymphna: Which is actually a load of rubbish because I can tell you now, if a property hasn't had some kind of renovation, kitchen remodel, bathroom remodel, extension, carport, or something put on since 1985.

Tyrone: You're not going to get a tenant.

Dymphna: So, it's worthwhile doing because of those costs.

Tyrone: That's right and that also applies to a strata property because invariably a strata property, every 10 years would have the flue remodel.

Dymphna: True.

Tyrone: Re-painted, all that stuff as well.

Dymphna: Yes.

Tyrone: So we also look at those things as well.

Dymphna: Okay, all the lifts, fixed.

Tyrone: That's right but even as an investor, at the top of the building, you own a portion of that lift when you buy that.

Dymphna: It's interesting when you start looking to strata title buildings and things like that, a unit, basically we're talking about now.

Tyrone: Yes.

Dymphna: There's a lot of items and I guess this is the same for residential as well. There's a lot of items that you can claim a 100% in the first year.

Tyrone: Yes.

Dymphna: Just expand on that a little bit

Tyrone: Okay.

Dymphna: What kind of item we're talking about?

Tyrone: Firstly, items that are around 100% items or items that cost under $300, okay? And in strata title properties, it's your portion of that.

Dymphna: Yes.

Tyrone: It's what's relevant, so I'll give you example. I drive into my garage everyday at my office, and there's a big roller door there, right? The roller door itself is part of the building but the motor that opens and closes that roller door, it might have cost $2,000 or it's worth $2,000. There is say 50 units in our strata suite, so I've bought roughly $60 for my portion of that $2,000 motor.

I can claim that because my portion is under $300. I got an immediate write off on that.

Dymphna: Yes.

Tyrone: That's one of the things.

Dymphna: I would think there are some things that would have an expected life some things.

Tyrone: That's right, there are some things that has an expected life of one year as well, sorry. There is things that costs under $300 and there's things that you have a really low expected life.

Dymphna: Now with the last budget in May.

Tyrone: Yes.

Dymphna: One of the things that they were talking about. I don't know if it has exactly gone through legislation yet but was changing the $300 for small business up to $ 6,500.

Tyrone: Yes.

Dymphna: So, how is that going to affect things? Obviously...

Tyrone: Well it depends on your – this is more of an accounting issue I guess. Because in Queensland, we give the numbers, right? And we do, overtime feel that we expect us to know all – far more parts of the Act than I would say the point is, we're originally supposed to know, but by the forces of nature, we have to know this stuff. So in some accounts, I would argue, I would say usually would you gives us some numbers, would let us know the how we treat that item because it's true that somewhat we don't know whether your small business – what entity, what class phase you are. So we're putting a rate on something. We don't know your tax treatment.

Dymphna: Yes.

Tyrone: How do we put a rate on that because that's what it comes down to. It depends upon whether it's small business. Medium-sized business and all of that, now governs what rate you'll be claiming, so I think a lot of accountants, they just get out numbers and they have to treat that entities for the situation.

Dymphna: Yeah.

Tyrone: How will it reflect a lot of property investors? Well it won't because most probably investors would be, I assume, well a lot of them are PAYG earners but I guess it would affect if you're doing a fit out and like when the government bonuses came into play, that affects it so if you are doing a fit out for small business, that definitely will affect you.

Dymphna: Yes.

Tyrone: So fit out is the only way I would say that that kind of rule would benefit our clientele.

Dymphna: Certainly makes it beneficial for write offs.

Tyrone: Well I just had a meeting the other day with a doctor and she said, the only reason she did that was because of the bonuses that she would get.

Dymphna: Very good. Okay, something else that I noticed a lot is when I was in accounting practice, now I'm not practicing it anymore. When I was in accountancy practice, something I saw a lot is a huge variation between quantity surveillance reports. Some literally are two pages long that they don't visit the property and they are not worth the paper that they are written on and the tax office doesn't like them. What they're actually doing, the tax office is actually saying, is saying they're targeting investors who use these quantity surveying reports that seriously, they are two pages long, they haven't been and gone and looked at the property and they are not worth the paper that they are written on so they're asking for an audit.

Tyrone: Don't start me Dymphna.

I'm an associate member of the Australian Association of Quantity Surveyors and two years ago, I saw this coming and the tax agent for practitioners – we have to be part of it now - so we have to go through the hoops to become a TPG registered person and I am the registered person (my company is), but they let some of these companies into play. My argument would be not that a) the reports are not of the best quality but, b) I would argue, day in and day out, that the $200 you are going to save by using someone like that is going to be the most expensive $200 you saved, day in, day out.

Dymphna: Agreed.

Tyrone: We come back and we see, we get them all the time from clients that have used them and I don't know but people, all I can say is you can lead a horse to water some times, isn't that the saying?

And whilst the reports aren't even that good and I think it is going to blow up in their face. You're going to lose in the long run by the deductions, not just the report in my view, when it's audited in two years time and you have everything in the property that will become null and void. You're going to lose out in lower deductions.

Dymphna: A lot of the industry particularly the real estate sales industry uses you guys as a tool to sell a property.

Tyrone: Absolutely.

Dymphna: Primarily, for negative gearing.

Tyrone: Yes.

Dymphna: Something I am vehemently against.

Tyrone: Yes.

Dymphna: But even though, that's how you guys are used and in effect perhaps labelled in that kind of field. The fact is, you go out there to invest in a property because it makes money, not to lose money like negative gearing, but you go in there but property and it makes a profit. But you still do your very best to minimise the amount of tax that you have to pay on it and that's where getting the quantity surveyors in, to go in and have a look at exactly what's there and what the maximum tax deduction is, it reduces that ultimate tax bill. It's still a good thing.

Tyrone: I always tell people to buy property based upon many other variables other than depreciation. Depreciation is definitely the icing on the cake. Once you bought the property then you have...

Dymphna: Buy for profit first.

Tyrone: Buy for profit, that's going to make you money then come to us and let us maximise the depreciation but let me show it to you as an example. We do a lot of work for major developer.

Dymphna: Yes.

Tyrone: And they have in their development site, they have five different development sites -They have a showroom whatever, just like that.

Dymphna: Yes.

Tyrone: Each display unit, they have a Washington Brown marketing depreciation for it, so if you buy the unit for $500,000, you're going to get a $15,000 depreciation claim. She drives around to other one, said there $500,000 and a year one depreciation claim of $16,000 each and she kept driving around. She rang me up and said, "Tyrone, I've been to this site and the year one was going to be $15,000; the next one was $500,000 purchase price, $16,000 etc., etc.," and she said, "So that makes the one that had the $500,000 purchase price and an $18,000 year one investment." That was the best investment, wasn't it? And I said, "No no, the best investment.., it doesn't work like that."

Dymphna: No, not at all.

Tyrone: The best investment was the one that said I get the highest capital growth or even make you money.

Dymphna: That's it. Make the money first.

Tyrone: Make the money first and then worry about depreciation.

Dymphna: Yes, something else that is a different slant on quantity surveying and a very useful tool for the more experienced investor particularly is using a quantity surveyor to work out the cost of construction on a property where you're buying the property below construction cost because right now those opportunities are out there. So you're actually buying the property below replacement cost, well below in a lot of cases and you're immediately getting a benefit. You're immediately getting a tax deduction and people don't use you for that purpose but I tell you what they should.

Tyrone: Did you just watch me speak?

Dymphna: I went it to a few times.

Tyrone: I just spoke, and in my talk, I said that I've never seen a time where I've seen more clients buying property at close to the construction cost as I have ever seen.

Dymphna: Yes.

Tyrone: As I said, doesn't make a good investment but I tell you what, it gives a bit of a base.

Dymphna: Yes.

Tyrone: I know where I would rather be buying at this point in the cycle then the other point of the cycle, as a part of my job is to review what the sales history on projects were and then analyse the sales history versus the construction cost and I always think that if I can buy property at close to the original construction cost then it's hard to lose money because it's a natural flaw there because I don't know about you Dymphna but...

Dymphna: Construction cost goes up.

Tyrone: I don't know about you but when is the last time electrician came to you said, "Dymphna, I'm going to charge you less this year that I charged you last year"

Dymphna: It does not happen.

So you know, we're obviously in a great cycle to be buying property and buying property at the bottom of this cycle and all of that kind of stuff right now but I really do want to emphasise to all of the listeners that getting a quantity surveyor's report done on even a perspective purchase is a good idea, not just for the depreciation but also to identify the real value in your purchase itself particularly on the bigger properties, it's something I always do, commercial properties and the bigger stuff, so you got a real concept of the per unit cost of whatever it is that you actually buying. And when you're buying in at, less than replacement cost per square meter, as you say you really can't go wrong.

Tyrone: That's right.

Dymphna: So to speak.

Tyrone: Look if you're buying property and the construction coast are 30% of the purchase price, a) it's either got a great view.

But there's a variable there that can go wrong and this is what happens with I guess with the luxury house and what is mark that is going down the most is would be the luxury houses right?

Dymphna: Luxury houses and units.

Tyrone: And units as a ratio, yeah that's right.

Dymphna: Gold Coast.

Tyrone: Yeah, that's right.

Dymphna: Luxury items.

Tyrone: But you analyse what the purchase price was say, 5 years ago on that luxury house versus the construction cost, so say the construction – the purchase price was say $2million, the house was $500,000 and the land was $1.5million, if I could – which I wouldn't be able to, most of all that house today would be $500,000, tell you what, I would have far greater chance of making money in the future then having that big...

Dymphna: You got the land for free.

Tyrone: But there are areas in the country where I'm seeing it.

Dymphna: Yes well...

Tyrone: And then some areas you have to factor in growth etc., but with some of these areas, there will really fluctuate in their purchase price.

Dymphna: Yes.

Tyrone: And if you can buy at that point of the cycle, then you know, they'll also they fluctuate up as I can fluctuate down.

Dymphna: That's right. We are certainly buying at the bottom of the cycle right now, in most places around Australia.

Tyrone: Most likely.

Dymphna: Some place are in a blood bath which is great but there's other places that are going gang busters too.

Tyrone: Yes I'd say that's right.

Dymphna: Your industry as a whole and what do you do at the bigger end of the scale because obviously a lot of my listeners are investors. They getting out there, they might be doing a little bit of development here and there and things like that but we understand the retail end of your business, what else do you do?

Tyrone: Well, we also do traditional quantity surveying. So if you're a developer and you're building a hundred units, the bank just doesn't give you a $100 million and here you go, go and build those units. The bank will want to come to someone like me on the panel of the bank and they will say, "Can you give some independent cost of what the construction are?"

So we get the plans and we get our scale rules out and we work out how many square meters of bricks are going to be laid. How many cubic meters are concrete down to be poured. And how many square meters of windows are going to put in etc. And then, we say to the bank, invariably in actual cost, it's not a $100million that the developer told you, it probably going to cost $110million - I'm just generalising but generally it helps the developer if the construction cost is a bit higher and the values are higher because it gets funded.

Once that's all sorted out and we all agree that it is $105million then every month, or whenever they need money, we get asked by the developer to come out, we need to do progress claims, so we go out to the site and we see that they have excavated it, they've poured the basement slab etc., and we write a report to the bank and say, "Of that $105million construction cost, they've have now done 10% of that and the bank releases 10% of the construction cost to the developer that pays it to the builder and him to the subcontractors. That's one part, that's the most.

Dymphna: So and you obviously get on the bank's panel and you're going schmooze all the banks and all that kind of stuff.

Tyrone: Well, we used to. It's a lot harder these to be honest because there's not much development.

In Melbourne there is, but in Sydney there is one crane in the sky in CBD, so and the panels are all dried up. They were used to be Suncorp, there used to be a lot more lenders in that field, ruling now is a big 4.

Because there used to be so much more competition but they're not lending as much on that development side because that would cost, where can they put funds that are safer and the restrictions to get funds are so much greater. That's a good thing to supply if you're worrying about oversupply in Sydney but the fact that developers need, 50% presales - far more equity to get the project going is a good thing in one way.

Dymphna: So you have offices at Washington Brown all around Australia?

Tyrone: Yes.

Dymphna: You physically go and look at the properties to do the...

Tyrone: To do the depreciation, that's right. So we physically - most of the properties that we do are tenanted.

So a lot of clients have that concern - how are you going to get in? Well you have got a property manager, we don't want you to be the middle person, so we just say just give us your property manager details. Generally the property manager will give us the tenant details because they don't want to be the middle person either.

Dymphna: No.

Tyrone: So generally we ring up the tenant, saying when does it suit you and often that's in morning, night, or Saturdays sometimes and we go to inspect the property.

Dymphna: Okay. And if I was going out there and build a little house of some description and I was getting construction finance on it, you'd be involved in that process as well for draw downs as well or not?

Tyrone: No, not for a house, it would be too small. I am not saying that because I am trying to big note myself.

Dymphna: No, no, no.

Tyrone: What happened is the banks only use someone like us generally if it's a million dollar construction minimum.

Dymphna: Yes.

Tyrone: So normally someone like for a draw down either a local valuer would do it. Some in the old days the bank manager did.

Because their risks, if the \$100,000 construction cost goes pear-shaped is not as big, where it starts getting riskier and there is levels as well, so we are not the biggest firm in the country, so we approved from \$1million to a \$20million, then from a \$100million, there is like a top accounting, so there are certain levels that you get to as well.

Dymphna: Okay, very good. Alright, so if you were to give a piece of advice to investors out there. Your best hot tips, what would they be?

Tyrone: The best hot tips, well the first tip obviously is to get a depreciation schedule on any property regardless of the age.

Dymphna: Yes.

Tyrone: So we often have surprising clients from the upside of what they can claim on older property whether it would be renovated or even if it's old, so that would be always my number one tip. In terms of purchasing – in terms of buying a property, my tips would be to consider what the construction costs are on the property as well, so if you have, yes access to things like RP data etcetera, a tip there would be that if you look at the first sale on a property and it was \$150,000, my tip here would be if you could buy that property at a $150,000, it would be hard to lose money. In that it might be 10 years old that property.

So if you buy it at the first sale price, what happen what I showed you today, hard to lose money.

Dymphna: Very good. So what about cost? What does it cost to get you guys out on site to do a building inspection?

Tyrone: It depends where it is, but for depreciation, for capital cities, it depends, $600 to $700 depending on the property but obviously commercial, or if you are talking industrial. We did – we just worked for Lend Lease and we did, $400million builds and that stuff, so that's different fees but generally residential property, the capital city, in actually most of the regional places, it's between $600 to $700.

Dymphna: Okay, how many guys you got on the ground?

Tyrone: Must be about 30 in my head office in Sydney, there we have got about 60 nationwide.

Dymphna: Okay, that's pretty good. So you were so pleased, you bought the company and did the Remington Steele?

Tyrone: Yes, actually, I guess in some way that I look back and a) because it's always been my baby

And I'm pretty passionate about it.

Dymphna: Well you must be if you wrote a thesis in the 20s about depreciation...

Tyrone: But I wouldn't know what's like to work for anyone else anymore.

Dymphna: True. You'll become unemployable actually.

Tyrone: You know, I believe I am. I'd be a nightmare.

Dymphna: I reckon I'm unemployable. Very good Tyrone. Well thank you so much for being on the podcast.

Tyrone: Great fun.

Dymphna: Remember everybody, it's Washington Brown. How do we get in touch with you?

Tyrone: The best way would be to go the website, www.washingtonbrown.com.au.

Dymphna: Actually on the website, you got some really cool tools. Let's talk about them. What's that?

Tyrone: Well we've got lots of tools actually. We have got a free depreciation calculator.

You work out what the instant estimate of the depreciation claim is it anytime on any property. We've got a free building cost calculator. So if you are developing 50 units, we have developed a building construction cost calculator, so you can get a free estimate of how much it will cost you to build those 50 units nationwide.

We have got a depreciation app which you can download on the iTunes and the Android store.

Dymphna: App for everything.

Tyrone: Yes, you can get an App for everything these days. Prior to this we have had something like 20,000 downloads in the year.

Dymphna: Yes.

Tyrone: It surprised me. Free that's why.

Dymphna: Very good, washingtonbrown.com.au. Jump on there and get your app and get your calculator. Get your things going on and as I said, get in there and get your depreciations done on older building because of the extensions and renovations and all the rest of it. If you're going to rip something out, get them in before, if you have it already and after, so that you can maximise that write off of the change whether it would be kitchen, bathroom extension, whatever. For larger construction - I just had my quantity surveyor come in and give me the report for the next drawdown for what I am doing,

Tyrone: There you go. That's good.

Dymphna: All good. Well thank you very much Tyrone, washingtonbrown.com.au. Jump on there guys and we'll be back again to talk to you very very soon with a completely different topic, so bye for now guys. We'll talk to you again soon.

Tyrone: Thank you.