50% of Real Estate Investors don't take advantage of this

Dymphna: What we're going to do now is I am going to introduce you to an amazing man who has been in this industry all of his professional life. It's an industry that is one of those few industries that have been legislated into existence. You have to have these people. It is fabulous for investors. It is something that when you're investing in real estate and you have got investment properties you have to have.

It is what I talked about before about a tax deduction for not spending any money. It's the ability to be able to get tax-free money out of investing. Now most people think of that in the terms of negative gearing - that's a load of rubbish. What you should be doing is investing to make a profit and then we'll deal with reducing our tax that we have to pay as best as we can but invest for profit - don't invest to lose money, or to save tax - wrong way around.

Invest for profit and then we'll teach you all sorts of stuff of how you can reduce that tax. Now this gentleman that I'm going to bring up, as I said, has been in this industry for all of his professional life. He started off with a company and he's a bit like Remington Steel -remember Remington Steel? He liked it so much. He bought the company. Isn't it cool? I think that is such a great story.

Anyway, let's give him a huge round of applause, let's bring Tyron Hyde back up here from Washington Brown.

Tyron: I thought I would pick you up on something though.

Dymphna: What's that?

Tyron: We do charge. You don't get a tax deduction for nothing.

Dymphna: But it's a tax deduction. Here's the control stick. They're all yours.

Tyron: Thank you, let's go.

Investor rule number 1. Never lose money. Does anybody know who said that?

Audience: Warren Buffet.

Tyron: Warren Buffet. That's very good. The Sage of Omaha. Net wealth $64 billion according to Forbes Magazine. It's a bit of coin - I actually I looked it up today. He apparently gave $20 Billion in away 2009.

Anybody knows his rule number 2?

Never forget rule number 1. That's right. Now how do we transpose that little bit of gold information into our everyday property investing life? Well happily, I'm going to show that today but I'm going to do that little bit later. Before I do that, a little bit about myself.

My name is Tyron Hyde. I'm a managing director of a company called Washington Brown. It's a national quantity surveying company and what quantity surveyors do is we work out what things cost to build. We don't value what your property is worth - we work out what it costs to build.

Now there are two sides of our business. One side is, where you as a developer will come to us and you're building 30 units and we might say, "Well that construction cost is going to be $10 million," and we work for the bank on their behalf. So the bank will instruct us to work out what an independent cost is going to be and then every month, we go out and we certify how much work is done. But today we'll talk about the other side which is what I started - the depreciation side of property. I wrote a thesis on property depreciation, when I was about 23 and I'm going to tell you, it wasn't the best pickup line. We're sitting in a bar, "So what are you doing? I write a thesis on depreciation."

Next. Anyway I tell you something, we work out what it costs to build. So today there is three parts to this talk, the first part is the basics.

I'm going to run through how depreciation works for you as an investor. The second part of it, I give you my top 10 tips and then the third part, we're going to go back to Mr. Warren Buffet and how to invest as a property investor like him.

So Part number 1, the basics.

So what is property depreciation?

Well just like you can claim wear and tear of your car in your business, or your computer, or our desk, you can claim the wear and tear of an investment property against your income. We're pretty lucky in this country that we can do that. There are only three countries in the world that I know that you can do that. Us, New Zealand and Canada; for instance in the UK, you can only claim depreciation on commercial and industrial properties, so it's pretty lucky. I think we got the right mix here. Obviously you can't claim depreciation if you live in the property. This is only for investment properties.

Can I just ask, who owns an investment property? Now be honest, leave your hand up if you're not claiming depreciation. Can I ask why sir? Never got around to it? Generally what the response is here, is that my accountant told me I can't do that.

Now a lot of that work comes from clients that move accountants and the new accountant says to them, "Look you should be doing this."

I still think that maybe 50% of the market still doesn't claim depreciation of property. I'm going to show you why you should soon.

In summary, depreciation benefits you because what it does is it reduces your taxable income, so when we write on your report that you can claim $10,000 in depreciation deductions, that reduces how much taxes you pay. Let's go through it.

There's two parts of the Acts that we're dealing with this quantity surveyors, this is what's called the 'Division 43 allowance' and that's the brick work and the concrete - the structural element of the building. In that stuff, the ATO says it's going to last up to 40 years.

I'll give you an example, if you're building a house and it costs $120,000 to build and $20,000 of that component was ovens and dishwashing and so forth and there was $100,000 in brick work, concrete, roof, windows - you can claim $2,500 for 40 years. That's what the ATO says bricks and concrete are going to last for - 40 years. Now in order for you do that, this property or the residential property has to be built up after '85, so if you buy property that was built in 1982, you can't claim any brick work or concrete.

The second part of the Act is what's called the plant and equipment. This is what's called the 'Division 40' and this stuff wears out quicker, so the ATO says you claim it quicker. For instance, if I looked around this room today, the carpet here would be defined as just lasting to 10 years, so if the carpet here was a $100,000, I'll claim $10,000 per annum.

The lighting would be depreciable, the speakers, these TVs, this is the stuff that wears out quicker. The more of this stuff in your investment property, the more you can claim because it's quicker to claim an oven than a brick. Make sense? Because it's just going to wear out quicker, so quite right, it's as the ATO says; you can claim it quicker.

There's also what's called 'common property'.

If I buy unit in an American apartment for instance, there's list. There's fire services, air-conditioning, a common air-conditioning, that's stuff you own a portion of, so you can claim a portion of that. You own a portion of it. You also pay levies against that as well.

So to show you how depreciation works, I think the best way is mathematically, so bear with me because I'm going to run through some calculators. In my view, if you don't understand this property investing scenario, you shouldn't be investing, so the first thing I'm going to show is the depreciation calculator.

It's on the Washington Brown website under the 'depreciation' tab. Now this took me four years to build. Trust me when I started it I had more hair because you have got to understand that in terms of depreciation of property, it's not that simple because every property is different.

I did a couple of inspections in Cairns one time. I inspected two houses next door to each other. They both were a $500,000 purchase price but one was all tiled, one had all carpet. The next door had all fans in each room. The other one had all split systems in each bedroom - totally different depreciation. So how can I give you a mathematical equation to instantly workout what the depreciation is going to be?

What I decided about six years ago was every time we go to a job, we code it into five variables. If you come along and want an estimate, our calculator searches all of our actual results, it gives you an estimate based upon the average, so this is what it would ask you to get instant estimate.

First question is, what is the purchase price of the property?

In this scenario I've chosen is $300,000.

The next question is, where is the property closest to?

You have a dropdown there, 'Brisbane', 'Sydney', 'Melbourne', 'Adelaide', etc. I've chose Brisbane in this scenario.

Next question is, what is the standard of finish?

I've chosen medium here, so it's 'medium', 'low' or 'high', pretty simple.

Now the next question is, what type of property is it?

The drop downs there are 'high-rise units', 'houses', it also does 'commercial-industrial'. I've chosen high-rise. Next question is, when was the property built? Because that's a pretty important factor in terms, in speaking about depreciation because obviously the older the property, the less you're going to get. If it's brand new property, you're going to get more depreciation. So I've chose 2007.

Press calculate and this calculator tells me that in year one, I can claim $9,000 in depreciation but what does that mean to me as an investor? Does that mean that I can get a $9,000 tax-check from the ATO?

No. It means I get a $9,000 deduction, alright? And as Dymphna said, it's the only deduction where it's in the property when you buy it. Every other deduction you're going to get as a property investor is based upon the receipt or the invoice that you get from the council or your Strata manager.

I've got a $9,000 deduction here from depreciation, that's great. So how does that work as an investor in a property - as a property investor how does that work in my overall cash flow? Let's have a look.

To show you how that works in the property investment scenario, I'm going to show you a property investment calculator. This calculator quickly tells me the running cost of property, so when I put inputs of simple data, it's going to show me how much the cost to own an investment property is.

The first question they asked me is, how many people intend to buy this property? I've chose 'one' for simplicity's sake.

Second question is, what's my salary? I've chose '$80,000' here because that would appear to be the average wage to start on with me - that was a joke. Obviously, not a good one.

The next question is, what is the purchase price of the property? I've chosen '$300,000' here because I want to make it relevant to the number in depreciation. The $300,000 purchase price of having depreciation. Next question is, how much am I going to borrow? I've chosen 90% here because that's what I intended to do when I say to borrow 90% and put in 10%.

What is the interest rate or how much can I buy the money for? I've chosen '6.75%' here but I got a notice from a bank today that the rates came down to 5.8%, so this is a bit dated, but that's okay.

What is the estimated rent on this property? I've chosen '$300'. If I was buying a property for $300,000, the minimum I'd want is $300, wouldn't you?

What are the expenses? You going to have expenses on your investment property? Here obviously it's 1%, the 1% is relevant to the purchase price, so in this scenario, the calculator is going to allow $3,000 for strata levy fees etc. Finally, if I don't claim any depreciation on this property, I use zero in its tab. How much is this property going to cost me to own? Press 'calculate' and I blow this result up. Hopefully you can see this a little bit better.

This property is going to cost me $84 a week to own.

This is a negatively geared property. I'll show you why.

The rates are $3,000, i.e.1% of the $350,000, pretty simple. I've got rent in $300 a week, so I've got $15,000 per year in rent. That allows two weeks leasing up period, so 50 x $350 is $15,000 and it automatically allows that you're going to look for tenant for two weeks. It's going to cost me $21,000 to own. That includes your interest cost, so there are $3,000 in expenses and about $18,000 in interest costs. So I've got $15,000 in, I've got $6,000, so I've got $21,000 out every year. i.e. it's costs me interest and expense of $21,000. I'm getting $15,000 rent from the tenant, so I've got a loss of $6,000 per annum.

That is a negatively geared property. It has cost me more to own - but hang on - I've got a $6,000 loss.

Now I also have a salary of $80,000. My normal income tax would be $80,000 but because I've got this loss of $6,000, my revised taxable income is about $74,000, so I shouldn't be paying as much tax - I've got a tax credit of $1,800 but it's still a negatively geared property. It's not a loss that counts towards or reduces my costs per week. So I've now got, $73,000 as a revised tax – I've got a tax credit, so instead of paying $6,000 per annum, I've now got a tax credit of $1,800 a week - it cost me $4,000 a year or $84 a week. That's a very simple scenario of a negatively geared property.

Now what happens in that the same scenario if I factor in depreciation, what do you think? We'll I will show you.

Let's input that $9,000 depreciation claim. The exact the same scenario - guess what - my loss is greater, so I've still got the same rent. I'm still paying $6,000 physically out but now I've got another $9,000 loss for depreciation, so therefore my loss is greater, it's about $15,000. I shouldn't be paying tax on $80,000, I should be paying tax on $64,000. Make sense? Therefore my tax credit is greater.

Now, instead of costing me $84 before, it cost me $32. That's why depreciation is important because it reduces the amount that you're going to have to pay to own investment property every week basically.

I know Dymphna is into cash flow positive property and you have got to love that but how does depreciation affect that? Does it help you? Is it better?

Yes, it's better. I think it's better too because if it's cash flow positive, guess what? Your salary of $80,000 goes up. If your property owes you - paying you money to own - your salary is going to go up, so you need me more. I'll show you why.

Same scenario, we have a rent of $500 a week (not $300), with no depreciation claim. This is positively cash flow property, it's paying me $20 a week to own with no depreciation benefit, right? It's paying $20 a week.

What happens in this scenario if I input a $9,000 depreciation claim? Does it stay at $20? No. What happen is, it pays me more to own, goes up to a $100. That's why depreciation is of a benefit whether you're positive investor or negatively geared investor because your salary is going to go up because of the gearing. The amount you borrow on a property doesn't affect depreciation, it still benefits you, so the money you borrow as an investment property, it doesn't matter because depreciation reduces your taxable income regardless, okay?

Now, top 10 tips. This is an article, we've done the basics, we all know depreciation and its benefits.

Top 10 tips; this is an article that's lovely.

Tip #1. The higher the building, the higher the depreciation. Why? Because the higher the builder, the more of this stuff that depreciates quicker. The stuff that wears out quicker; lifts, fire services, basement ventilation - generally they're all air-conditioned - there's pools, etc. That doesn't mean that it's a good investment. All sorts that comes in high buildings. I'm just selling your facts of life, the facts of life - the higher building, the higher the deprecation you're going to get.

Tip #2. Old properties depreciate too. I wish every investor realised what I'm about to show you. When I say before with the capital works scenario, you can't claim the building or the structure of the building built for 1985. That's the law. So the original bricks that were in that property when you bought it, if they were laid there in 1982, you can't claim it. But what you can claim is the carpet and the ovens and the dishwashers - that stuff has no life or no law. That said, if it's 10 years old, you can't claim it. Now let me show you an example and this is a new one.

I just put this in so Brisbane and Melbourne, you can get this great little tip - this is a job that we did it this week.

Now look at this house, it's in West Footscray, I just reviewed it two days ago and I thought I'd throw it in. Our client paid $580,000 for that. Do you think you would get a good deduction for that property? Would you bother to instruct a quantity surveyor to do an inspection on that property? I bet a lot you wouldn't. You would probably think it's too old. Well let me show what we found.

What we found was an air-conditioning unit for $2,300, carpet for $2,500. We found hot water system of $1,300; lights $700; blinds and curtains for about $2,000.

Guess what the first year claimed on that property was? $6,000 not bad. I think a lot of people wouldn't think you would get $6,000 the first year of tax deductibles on that property, would you? So it pays and our fees which cost $600, which is also tax deductible. Food for thought.

Tip #3. One of my favorite tips. Items under $300 and low pool Items. Now I don't know how much you know about tax law but if you buy something under $300, you get to write it off immediately, so if I was buying a microwave oven for my investment property, I pay $295 for the microwave, not $305 why? Because I get an immediate $295 tax deduction as opposed to, if I bought the microwave at $305. I would claim that at 30% per annum. Very simple tip. Do you think you're tenant thinks whether their microwave cost $295 to 305? I don't think they would notice. Similarly, there is this thing called 'low-value pooling'. So if your item cost from $300 - $1,000, you can claim that 37.5% per annum as opposed to its effective life of 20% or whatever the case maybe. It's virtually doubled. So again, if I am going to buy an oven, I'll buy them for $950, not $1,050 because I'm going to increase the rate that I can claim with that. Very simple tip. Another tip just on that, is if I did buy that microwave for $330 and I bought the property with my wife, I'd make sure my accountant put that microwave at $165 each because that's what I paid for. So I'm talking something from $330 as a joint holder and making sure my accountant put it $165 and claim it at 100% per item. Make sense? Very simple but to me it saves a lot of money.

Tip #4, furnishing your property. This is not for all properties. I'm not talking about furnishing a property in hoping I get short-term accommodation but if you do furnish your property, you only get big deductions. We just work for developers where they will supply $20,000 furniture package. They end up getting half of that, virtually but enough because there is linen, bedding, all that stuff depreciates immediately, so if you did put in furniture of $20,000 into your property and you get half of that rent off immediately, it's something that you would consider. You also have to consider the market where that property is. You know, is it going to increase my yield? Furniture does depreciate highly.

Tip #5. Not so much of a tip, this is the law. The law is that we have to use the original construction cost when working out what you can claim as an investor and I'm going to show you later but I've never seen a time where investment of buying property at close or below the construction cost as I've seen in 22 years and I've got some great examples I'm going to show you. This is a simple scenario, if someone buys a brand new property for $350,000 and two years later, I come along and buy that property for $250,000, the construction cost doesn't change. Our report will start at $250,000 - we look at what the construction costs were just because the price has gone up and down, it doesn't mean that the original construction costs have changed but heaps some more on that later, so I just give you a little teaser.

Tip #6. It's a good tip called the 'Residual Value Write-off'. Now when I started doing this, there was maybe 10 quantity surveyors and we all had a different view of what you could consider to be plant and equipment, and what you could consider to be the structural element. Doing the best we could for our clients, we wanted to say as much was plant and equipment because you can write it off quickly. So every quantity surveyor had different view. I had the view for instance that I thought the kitchen cupboards should be written off quicker than 40 years because I know that if I have the same kitchen for 40 years, I won't have the same wife.

Unfortunately, the ATO put out a ruling, so you cannot claim things like kitchen cupboards - you have to claim them over 40 years. You have to claim shelves for over 40 years. You have to claim light fittings over 40 years - I think they've gone too conservative. So what happens if I buy a property that was built in 1990? If I bought it say, last year, have a tenant for one year. I say, "I want a new kitchen - I want to get a tenant. This is looking very dated. I need to upgrade the bathroom, it's a little bit dated also."

So I rip out that kitchen. I rip out the bathroom. If that original kitchen in 1990 costs $10,000 and I rip it out today, I should be claiming half as a deduction immediately, so it cost all of $10,000 back then, there should be a $5,000 deduction available to me.

The problem is that nobody knows how to do that because no one knows what the original kitchen costs were and therefore there's going to be so many millions of dollar undeducted every year. So my tip to you, if you are going to do a renovation on a property that was built before 1985, get a quantity surveyor before you rip the stuff out or work out what you can claim as an immediate deduction. I don't think it is that uncommon that in order to get a tenant, I upgrade my 1990 property. I look up properties all day every day to see what people are buying and it's not that uncommon. Trends change and markets change but I want to upgrade to get a tenant and have you seen a 20-year-old shower screen lately? It's not that pretty.

Tip #7. The reason I'm standing here today was that in 1997, the Australian Taxation Office put a ruling called TR 97/25. I love that I can quote that – a bit weird if you ask me, but anyway, what it said was that quantity surveyors are one of the early professions that can estimate the cost where the construction costs are unknown. So, if for instance, you buy a brand new unit – if you have a house or you buy a house land package - the costs are known. We can't come along and say, "Okay, here's your building contract for $200,000. We reckon it cost it $250,000." It doesn't work like that but what we can do is you buy second hand property and then the vendor hasn't given you what the original costs were, well that's where we are licensed to estimate what the costs are and that's what we do all day, every day. Valuers can't do this. Real estate agent's can't do this. Quantity surveyors can because that's what we do all day. We estimate what things cost to build. Not all quantity surveyors specialise in this service, but we certainly do. This is the only deduction that you will get as a property investor that is open to interpretation and skill. Every other deduction that you will get will be based on your invoice, so make sure you get them right.

Tip #8. New property versus old property. It is often said that new property gets the best deductions. It is true. New property gets the best deductions, but I personally wouldn't be focusing purely on depreciation. I think depreciation is the icing on the cake as an investor and I'll show you why. I've done some – using the property depreciation calculator on our website. I quickly did an analysis on the comparison of a new property versus the second hand property.

If it was brand new property of $500,000 Sydney, medium-quality house, built in 2012, my new one deduction was $13,000. I then did the same numbers and as I said before, the calculator is based on new results. I've ended the scenario based on the 12-year-old property, so $500,000 Sydney, medium house, but built in 2000, the deduction was $10 ,000.

It's not a huge difference, is it? Is that something that would make you run out a buy new property? Not me. So my tip there is to, think that you don't have buy new, you can't – something with new property probably caught up in the hype, I think you got probably a far greater chance of finding the right value or something that is second hand but it's up to you.

Tip #9. This is a new tip. It wasn't in the other seminars that I gave but everyone asked me this question, so I thought, you know what? I've got to scrap one of these tips and put this one in.

The principal place of residence. I'm getting asked more and more often. If I own a house, it's an owner occupied property, I'm living there for threes year and I moved out, what happens? How does depreciation worked in? Well simply, you can still claim depreciation just you can't claim for the first three years. The property still depreciates while you're living in it, okay? You just can't claim it. So for instance, if it's brand new, if I bought a brand new property, lived in it for three years. One, two, three years later, there is still 37 years left to go on that brick work. The carpet had 10 years effective life, it's about seven years left to go, so it doesn't change just because I live in it. You're still entitled to claim that deduction even though I originally lived in it and I don't know why I am getting asked more and more but it seems to be the case.

One final tip, is you can claim renovation cost. I've said before that you can only claim depreciation of properties built before 1985. If I buy a terrace house on Oxford Street - I love that I'm in Sydney because I can use real examples of places that I know rather than making them up - but if I bought a terrace in Paddington that was built in 1900 but had a kitchen renovation done in 2010, that kitchen cupboard starts – the 40-year-start from the time that they were renovated or the time that they were in place, it doesn't exclude you just because the structure of the building was in 1900. Yeah, there is where it gets interesting because as you know, if you put it in a pool or a garage etcetera, you have to go to council but with renovations, internal renovations, you don't have to always do that. So sometimes we have to guess or let me say estimate when that kitchen renovation occurred or what the costs were of that kitchen renovation, so that can be a good thing – I will leave that thought with you.

Okay, so Mr. Buffet, so never lose money. It's where it gets interesting from where I'm standing. There are two ways to find Mr. Buffet's path to never losing money in property investment at the moment and the number one way in my view is to buy property as close to the construction cost as you can, a newer property. Let's have a look what I mean.

Here's a property. Wish I could blow this up but here's a property, originally it's sold in 2003. It's in Cairns, originally sold for $241,000 in 2003. The next sale was in 2006 for $320,000. Our client just paid $170,000 for it. Of what point of the cycle would you rather buying in? Okay, there's a bit of a Honeymoon dip for want of a better word but it's up and down the market there, what changed? Purchased prices changed, the land value must have changed but what didn't change? The construction cost. We said on that property for $170,000, the building cost was $153,000, so just because the original guy went to $320,000 or whatever it was and now it's $170,000 the original cost didn't change, you're buying nearly at 90% of the value here, so if you can buy at that point, hard to lose money if you're buying something that you can get for free.

So what didn't change? The construction cost didn't change, because building costs rarely, if ever, go down. When was the last time the electrician came to you and said, "Hi Tyron, I'm going to charge you less than last year." Has that ever happened to you? Not me.

There's only one time and I graphed this, there is a thing called the 'Building Price Index', just like the CPI but it's a Building Price Index and I charted this from 1974. There's one time, late 1989 - 1990 when it went down and that was when interest rates went to 17% for home buyers. Now if interest rates went to 17% for home buyers, then rates must be like 25% for the developers, I can tell you it's really hard to develop a property if interest rates are 25%. So one time, it went down because construction costs rarely ever go down. Even here now in Sydney with a lack of work, how many cranes have you seen in the sky. There's one - as if apart from Barangaroo, there's one crane at ANZ tower. Still we're not pricing things less.

Example #2. This is a three or four, a four-level building in Parramatta. Our client just paid $1.1million for it. The tenant was a commander, part of Telstra. Pretty good tenant, $1.1million they paid for it, when it was originally for sale it was for $2million, pre-GFC, just paid $1.1million. Our construction cost on that $1.1 million, $1,087,000 - close to construction cost. Look at the fluctuation of price to what is paid, so if you target with someone what the construction costs were and ignore what the paper says on whether things are going up or down, it's hard to lose money.

Here's one of the best examples.

This house is in Orange. Originally sold in 2003 for $95,000. Our client just paid $46,000 for it. We estimate the construction cost to be $52,000, more than what he paid. You tell me another example where you can get a deduction greater than what you paid for something - it can't because every other asset is based upon its purchase price, except construction of a building which is based upon what the original construction costs were.

In this case, the client – of that $46,000 purchase, he had $4,500 as a deduction. $4,500 against his purchase price $46,000 is 10%. If you're on the highest marginal tax rate, he just got a 5% net yield without a tenant. What if you have got a tenant? Hard to lose money.

Example #4. Look at this house in Broulee. There is the Washington Brown car.

Look at this house in Broulee. Beautiful, beautiful. Client just paid $664,000 whereas the construction cost is $641,000. If you ever want to buy that little holiday house in Central Coast or whatever - not a bad time. Look at it, $600,000 - lap pool. Not bad it is? Now this is an example that I put into slides yesterday because this is probably the one I want, "Whoa," buy that. Noosa, look at this house? Looks nice, doesn't it? Wait until you see more, look at the finishes. The common property – look at this, it's like 20 of them sharing in this- what do you reckon they paid? Pick a number. Million? I would have thought a million. Next door paid $1million. Next door paid $1.1million, $1.15million? Our client just paid $450,000.

We set the costs for $546,000. I mean look at it, true story. It's not bad, isn't it? Not bad for a weekender. Amazing. Anyway, that's what happening here. I read the commercial business section religiously and I've never seen a time where there is more stock that is 'mortgagee in position'.

Number 2. Buy a property as close to land value as you can. So this is another way of doing this, it's what I'm talking about. It's a lot harder but I'll show an example. This is the house in Bronte and my mother that's in Sydney that I can talk about this, she knows where Bronte is.

Beautiful house, renovated. Our client just paid $1.37million for it. We set the renovation for $300,000. It's a beautiful house. The land value is $1,040,000. To me if you can buy a house in Bronte where for $1.37million and you got a land value of a million which these government organisations are generally pretty conservative, they got a renovation of $300,000 - hard to lose money. They are out there.

There's a guy at a seminar that keeps talking about, flipping properties, so I grabbed the guy and I said, "Come on, come to my office, come on. Show me your contracts." I showed him an example of what I just bought, it's in Pitt Street. In the picture, that's me Hyde and that's Redici, she's my wife. She is one of those fancy new aged women that wouldn't change her name. You know the type.

Anyway, we just paid $860,000 for this property, our head office in Sydney. There's is me, having to look around, it wasn't the nicest but it doesn't take much to turn a dog into a fox in commercial properties, there's Dawn. Here's our office. Now I paid $860,000 for it. When I do the numbers on this property, I said well – and I got the land value from the Land Titles Office, it's $500,000. I said, "Let's rebuild it." Well it's 300 square meters, so it cost at least $3,000 a meter, probably more in Pitt Street, so there's $900,000. Well there's design, council, etc., so the property's got to be at least worth $1.5million minimum. This is the evaluation CPR gave me when I bought the property, $1.5million funnily enough. Guy had a bit of hurt. You know, I feel sorry for him. Little bit...

It's not the only thing you consider but all I'm saying is that, as part of the investment process, you might want to consider the construction cost because they're real. Land can fluctuate. What happens when the market goes down, the number 1 thing that goes down, the house has all the clues, the cost is still the same, the land is what goes down and up, so you buy at the price of the original cost to build - it's hard to lose money. You need to consider what things Dymphna will talk about, well other than the location etc., tenancy quality, the ability to pay, etc. All I'm saying is, as a quantity surveyor, I consider other things, the construction cost, the land value, the improvements of the property.

Finally, I wouldn't be up here if there wasn't a quick ad, so we launched the depreciation calculator recently as an 'app' where you can download it and I hope you will do that because funnily enough, after I did this in Sydney and Brisbane, I went up to like number 10 of downloads, it's pretty cool. So if you got your iPhone, blah, blah, blah. Anyway, so it's simple, the same scenario that depreciation calculator I showed you before. Only five simple questions in order to get an instant free depreciation estimate. What are you paying? Where is it? Where was it build? What qualities is the house unit etc.? You can get instant depreciation, free of charge, less like that, and also, it works on Android.

Yes it's funny you clap because when we launched it on the iPad. It was like when we launched it saying, it works on the iPhone and I think of like 10,000 downloads down on day 1 but we got about 600 where we had people going, "Well, why are you only doing it for the iPhone? Come on, build for the Android." Obviously people are very particular what their phone is. But also I want to show that actually works on iPad as well and the reason I've got this slide here is because I want to show you that it works on iPads but because my mother hand-knitted me an iPad cover!

But not only that - in the Bulldogs - because I go for the Bulldogs. When she handed a Bulldogs cover case, obviously she went to knit Tyron - my name is T-y-r-o-n - she obviously realised that her font was too big and left 'Ty' centred left. God bless you mum. So there are five things I want you to take away today.

Number 1, old properties depreciate too. I'd say 70% of our business is based around old properties depreciating, so we guarantee that if we can't get you at least twice our fee in the first year, we don't charge you. In fact, on your seats is a one off world special, a Dymphna application form on which is a legitimate reduced price. It's funny, I've done a lot of seminars and I think you guys that go to Dymphna's seminars, you're obviously very passionate people because I do this for the home show etc., and I've got greater response from this type of thing that any of the other seminars I've ever done, so please use it.

Number 2. I want you take away today is that the depreciation helps your cash flow. It reduces the amount you need to pay as a property investor. We all like that, don't we?

Number 3. You don't have to buy brand new to get high deductions. I have shown you on the calculator that you can get nearly as much as something that is 10 years or 5 years old. So bear that in mind.

Number 4. Consider the construction cost when buying. Just throwing it out there. I do. Make sense. Property is a combination of land plus building. Simple, it's not that simple but it should be considered.

Number 5. Of course, is to get a Washington Brown depreciation schedule. I have to say that but I just said any questions, anyway do you have any questions. Yes sir at the back.

Audience: What about depreciation as far as when you renovated the property yourself? Can you get it afterwards and get a better of return?

Tyron: I like your style sir and I get that asked a lot but we have to base it upon your actual work, so the ATO says you can't include your time unless you do that work under your building company and charge it somewhere else. It would be nice system where I could do the work myself and say it would have cost x, y, z to do but it doesn't work like that. It's based on your actual cost, so if you pay $5,000 worth for an electrician, that's what we need to know unfortunately. If you pay them cash, that's up to you what you tell us because of your tax return but cash is a legitimate form of currency. Just hard to keep the records. Yes sir.

Audience: Yeah, I was looking at buying a property. I discovered that it was actually originally built in 1960, but it's extensively modified by a developer and just selling it. Can I claim depreciation on building at all or...?

Tyron: Absolutely. Because if he extensively modified it, he would have probably put a new tiles in the bathroom, new kitchen etc., absolutely, so as I said before. Just because the original structure was built in 1960, it doesn't mean that you can't now claim, it starts again basically so when you put a new tiles in, new kitchen cupboards, it stars from when they're installed, not the original date when the original building was built. Okay?

Audience: How do you find out the construction cost of a building?

Tyron: You instruct the Washington Brown to prepare a report for you.

That's an easy one, that one [chuckles].

Audience: I just inquiring, when you sell a property do you have to pay for the depreciation back?

Tyron: Every time someone asks this question. You're right. We have to. It gets tricky but see what I've shown, you get a $10,000 tax deduction, right? Of that $10,000 is about $8,000 of the carpet, dishwashers, etc., about $2,000 of that $10,000 is in the brick work and the concrete, okay? That bit the $2,000 only component, when you sell the property, has to be included as part capital gains liability but I got a great way of getting around it – don't sell your property.

Audience: What if you haven't claimed any depreciation, you can only go back two years?

Tyron: That's right. You can go back two years from your last tax return, so if you're a bit for slack, it's actually this is one-time that's going to benefit you, so you can amend up to two years back. It happens all the time. It used to be four years but now it's two, so it's one way where you can benefit to go back, but it's worthwhile if it's, like we get clients. One client rang me up once, he's spent $5million building an industrial factory, 10 years ago. Changed an accountant and then invariably that's when people come to us with this question. He said, "It should have been 10 years ago, so you probably lost $1.5 million in undeducted in depreciation?" But you can only amend it so far back unfortunately. Yes sir.

Audience: Is there any way you can, or any tool you can use to estimate the construction cost before you buy a property?

Tyron: Okay, good question, I'm glad you asked that. As I said before I think if you can buy property close to the construction cost, the original construction cost, you're doing well. So what I would do is either have Real Estate Investar, RP Data or Australian Property Monitors or whatever. If you can find the original purchase price of the property, right? If you can buy at 60 to 70% of the original sell price, that would be close to original construction cost because if you're developing property and your building costs are greater than 60%, it's hard to make money. So if you can find the original sell price and buy that property at the 60% roughly of the original purchase price, you will be buying close to the original construction cost. It's a broad brush statement but it's pretty accurate. Yes sir.

Audience: I seem to recall there was year before which you didn't have to adjust building depreciation to the capital gains tax calculations?

Tyron: What do you mean sir?

Audience: Perhaps 10 or more years ago. When it first came in that you have to adjust the capital gains...

Tyron: No, there was something along the lines that if weren't claiming it, Dymphna - this is where I need my fellow expert here. I'm not aware of that. There was something that was saying that if you weren't claiming it, the ATO was going to enforce that you had it within your capital gains calculation; however, five years ago or so, put a ruling that said if you don't claim it, you don't have to put it into calculations. Is that what you're referring to?

Audience: No. At time, I think it was before 2000, up until a certain time, if you claimed the building depreciation you claimed over a period if you sold it, you didn't have to include that in the liability capital gains tax.

Tyron: Not aware of that sir, to be honest.

Dymphna: What actually there was up till that time, you used to be able to calculate capital gains tax on an indexation method. Now on the indexation method, they created a term, an 'index' was given to the property every year and if you were claiming the indexation method for calculating capital gains tax, then the depreciation actually did come into because there was the index value and the difference between what you sold for which you paid capital gains tax on. That was then phased out and the actual calculation of depreciation was brought in and that's where the depreciation starts to come the other back on it. That's what he's talking about.

Tyron: That's why it is a questions more for the accountant because we don't really get involved in the calculation of the actual, CGT liability, we're just an expert in cost. I just want to cover myself in. Thank you very much.

Anyway, yes ma'am.

Audience: I would like to ask if I'm talking about my PPR, and if I all around the house just beautifully cosmetically renovate it just for my own comfort, and then I decide in year's time or two to rent it out. How does that...?

Tyron: How does that work? It's a good question. See what happens is when people renovate their own house, if ever they don't keep the receipts because it's not deductible. There's no need for you to do that, so what we would do if that work with you and trying to come with what's a reasonable cost or what work you've done. That's up to you what you put in because in that case, we're going to ask you what have you done? What do you recall of what the cost you've incurred? It can't be tracked to, if you didn't do a list over come in and fix it up and you've got a check butt for $10,000 for that work and you tell us $20,000, that's you signing that off, but if you do that work, yes it's still claimable but it's just, sometimes it's hard to know what the work and cost was because you were living there and you probably don't keep those receipts sometimes. Yes?

Audience: Hi. Do you have a presence in Western Australia?

Tyron: We're nationwide. We go everywhere. Except Mount Isa – it's too hard to get there. Come on let's have one question sir.

Audience: How much is the depreciation on the landscaping?

Tyron: Nil. Soft landscaping is – it's funny, the ATO says that you can't claim landscaping and unfortunately, the Australian Tax Office is not engaged everyday with builders and so forth. There is broad brush statement saying you cannot claim landscaping but they don't really mean that. What they mean is you can't claim grass and trees because it grows. What landscaping that you define is hard landscaping; retaining walls, fencing, paving, etc., so that stuff is structure and it's at 2 ½ %. It's like brick work and concrete but it's still claimable. The stuff that we can't claim is the grass and trees because it doesn't depreciate, it grows - except when you mow them. Any other questions? Yes?

Audience: Where do your clients find their deals? Do you get any tips from working with them?

Tyron: I don't know how to answer that one. I've got many clients sir. I don't know, I look after it for myself, I don't know. We're not really engaged in venturing type things where they find it. I suspect they use programs like Real Estate Investor because those programs can target or mortgagee stuff. There's a website there like mortgagee.com.au. So you can get stuff on people that are in liquidation whatever but I can't answer that question. We just hope that come to us once they bought the property. Yes sir.

Audience: Somebody comes to you with a plan before a construction is completed. Can you please recommend what's the best thing to put into a house to get the maximum depreciation?

Tyron: We can, but we don't often do that. It's an interesting question. We can certainly do that but I would say that my first port of call would be to work out what your tenants or what is going to be beneficial to you getting a tenant or what's going to be beneficial for you selling that property rather than worrying about the depreciation. If I was building a house in Cairns, do I really want a fan in every room or air-conditioning units and weighing up the depreciation of that or if it is tile or the carpet. I would say that your first focus should be what does the market want and worry about the depreciation later. I always say when buying a property, depreciation is icing on the cake. It's not what your focus should be.

I will give you an example. About five years ago, I had a client - we do work for one major developer. On every site shed or every display home in the development, they had a Washington Brown estimate of depreciation and this client went from one office to the next, to the next, to the next, and she got all these five estimates for the same purchase price. She said, "Okay Tyron, for 'x' number of development, I can get $15,000 year one deduction." For the number 2 site, $16,000; up to number 5 site $20,000 year one depreciation." So she said to me, "Makes the $20,000 one a better investment, doesn't it?"

No, no, no, it doesn't work like that. You have got to work out what is the best investment and then worry about the depreciation. Like where is your future growth going to come from. That would be my focus, not the depreciation. Once you bought that property, then make sure you see Washington Brown. Yes.

Audience: I've got a property that was an investment property to start with. Then I then moved into it. While I lived in it, I did do quite a bit of renovation. It was for me to live in for a lengthy period but I am thinking I will rent it again. It probably would be possible to go that through bank statements, say the last say seven years and work out what I spent on it. That's a lot of work.

Tyron: Yes it is.

Audience: If you guys did – whatever you do? Which way do you think would be more profitable?

Tyron: I'm still trying to work that out too.

Audience: Like would it be worth my while trying to work out what I spent on it? Or I just pay you the bucks and you – would you be accurate?

Tyron: Firstly, there's a bit of a specific scenario probably more of a phone call. We work out what and how much you've done and generally speaking, we would generally ask you what you've done, try to work it out, and then we'll work together to do that and if you said to me that you had only spent $5,000. I say would say that it is not worth it but if you said that it was about $100,000 renovation or $50,000, then we would start working together because if it's just $5,000 and a little bit of time for you to go through your books, you probably better off doing that and give that to your accountant rather than us trying to come to a figure of whatever, so it's a bit of a specific scenario but we'll say this though, just because you rented it out, as I see, was an investment property, you live in it and then you move backed out, it's still claimable, so it is still definitely claimable. I should say as I said before, when you do the work, when you live in the property, you don't know if you keep those costs, so it's hard to know. Yes.

Audience: Can we claim tax depreciation schedule before the building is build?

Tyron: You can order and pay for it as well sir.

Audience: Does that mean we know what the cost of the building is?

Tyron: No, so you can...

Audience: It would be purchased of the plan.

Tyron: Okay, you know what, without the plan, you can still order but what happens is when you buy something off the plan, invariably the developer will have a report. The report that you get has to start from the settlement date. We can't give you or if you bought something that's on finishing six months' time, we can't give your report six months prior until you're settling on the property. We have to give you the report once you sell it but I start from the settlement date but we won't know the cost, so still the costs are unknown, we can't give you an estimate prior to that. But we do it all the time for developers. We give them estimates based upon what we think is the cost to build to help them sell the property. Did that answer your question?

Audience: Not really.

Tyron: No.

Audience: The idea to get that depreciation schedule is find out what the cost is, before we actually make the decision of the purchase.

Tyron: Okay, well that's a different story. What you should be doing there is going to developer and saying to him, "Where is the estimate of the depreciation?" If he hasn't got one, you should say to him, "You need to contact Washington Brown, so they can give an estimate, so they can give to you."

I think that's it Dymphna.

Dymphna: Very good. Well give Tyron a big round of applause.

Tyron: Thank you very much.

Dymphna: Thank you. So there you go tax-free money. That's what it comes down to. Thanks Tyron.

Tyron: Thank you.

Dymphna: I must say this. I've been in the industry like I have for a long time, you see a lot of stuff go down and there are a lot of quantity surveyors out there and they have varying degrees of quality depreciation reports. I have seen some quantity surveyors that don't go to the property at all. I have seen some reports that are two pages long and I can tell you now that that category of quantity surveyors report whilst they might be cheaper, they are under target by the tax office. That is not the way you want to be, you don't want to be going through a tax office audit simply because you choose a dodgy quantity surveyor. That's why Washington Brown is here. That's why their reports are extensive. They are detailed. The tax office loves them, so it is a necessity if you're property investors or going to be, if you're building, a huge realm of uses for the quantity surveyors reports. Absolute must.