



# Article Side

Real Estate Analysis of Sydney Australia by [Ariel Linford](#)

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Real estate appraisal, property valuation or land valuation is the process of valuing real property. The value usually sought is the property's Market Value. Appraisals are needed because compared to, say, corporate stock, real estate transactions occur very infrequently. Not only that, but every property is different from the next, a factor that doesn't affect assets like corporate stock. Furthermore, all properties differ from each other in their location - which is an important factor in their value. So a centralized Walrasian auction setting can't exist for the trading of property assets, such as exists to trade corporate stock (i.e. a stock market/exchange). This product differentiation and lack of frequent trading, unlike stocks, means that specialist qualified appraisers are needed to advise on the value of a property. The appraiser usually provides a written report on this value to his or her client. These reports are used as the basis for mortgage loans, for settling estates and divorces, for tax matters, and so on. Sometimes the appraisal report is used by both parties to set the sale price of the property appraised.

In some areas, Stamp duty valuation an appraiser doesn't need a license or any certification to appraise property. Usually, however, most countries or regions require that appraisals are done by a licensed or certified appraiser. If the appraiser's opinion is based on Market Value, then it must also be based on the Highest and Best Use of the real property. For mortgage valuations of improved residential property in the US, the appraisal is most often reported on a standardized form, such as the Uniform Residential Appraisal Report. Appraisals of more complex property (e.g. -- income producing, raw land) are usually reported in a narrative appraisal report.

Australian Property Valuations is completely independent network of valuers providing property valuations throughout Australia. These valuers are all Certified Practicing Valuers and Members of the Australian Property Institute.

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Property depreciation report is the loss in value of an asset / building over time due to wear and tear, physical deterioration and age. The cost of reproducing an income property can be recovered over the useful life of the asset which is determined by law. Depreciation is treated as an expense and is a line item on an income statement. Depreciation can only be applied to the building and not the land, since land does not wear out over time. Residential income property must be depreciated over a 27.5 year period using straight line depreciation. Commercial income property must be depreciated over 39 years using straight line depreciation. Straight line depreciation stipulates that an asset must be depreciated by equal amounts each year over its useful life.

Example: You purchase a warehouse for \$900,000. The land where the warehouse resides is valued at \$120,000. The building is valued at \$780,000. Current law allows you to depreciate

commercial properties by equal amounts annually over 39 years. Your depreciation deduction for the first year is based on the mid month convention. The day of the month that you purchase the property doesn't matter. You can only deduct half of the first month's depreciation. If you put the warehouse into service on June 1, you are allowed to deduct 6 and 1/2 months of depreciation for the first year.

780,000

----- = \$20,000

39

Accountants calculate a full year of depreciation for the above warehouse (commercial properties) by multiplying 2.56 % times 780,000 which equals 19968. A full year of depreciation for residential income properties would be calculated by multiplying 3.64 % times the building basis.

The depreciation deductions that you write-off in any year reduce your taxable income thus increasing your profit for that year.

The real estate income property investor is also allowed to depreciate capital improvements such as a new roof or an addition to a building.

Example: You have owned the above warehouse for about 7 years now and it is in need of a new roof. The cost of the new roof is \$19,500. You are allowed to depreciate the cost of the roof over 39 years. If you put the new roof on in July, you are allowed to deduct 5 and 1/2 months of depreciation in the first year. Accountants would calculate a full year of depreciation for the roof by multiplying 2.56 % times \$19,500 which equals 499. Note that land improvements can be depreciated over a 15 year period using 150 declining balance. Land improvements include walking paths and trails, fences, landscaping, sprinkler systems, retaining walls, fountains, etc.

All depreciation amounts that you write-off in each year for the building and capital improvements reduce your adjusted basis for the property thus increasing the taxable profit you must declare when you sell.

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Lorenzo cliff has been working as a professional writer since 2009. His writing includes many articles for blogs, websites like for a styletext-decoration:none [quantity surveyors](#) and many more. He prioritizes quality over quantity to write about property valuers and make sure that his articles are interesting and error-free.

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