

MP+ & PPA Webinar: Navigating the Changing Property Market

Paul Moran

Lachlan Delahunty

Paul Tate

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mckinley plowman
partners for life



Agenda

1. Intro – Paul Moran
2. Property Market Updates – Lachlan Delahunty
3. Finance – Paul Moran & Paul Tate
 - Age restrictions when buying property
 - Changes to how banks assess your loans
 - Not all bad news!
4. Tax – Ben Teti



Property Market Update

Lachlan Delahunty



Performance Property

October 2021 - Navigating the Changing Property
Market



Performance Property Agenda

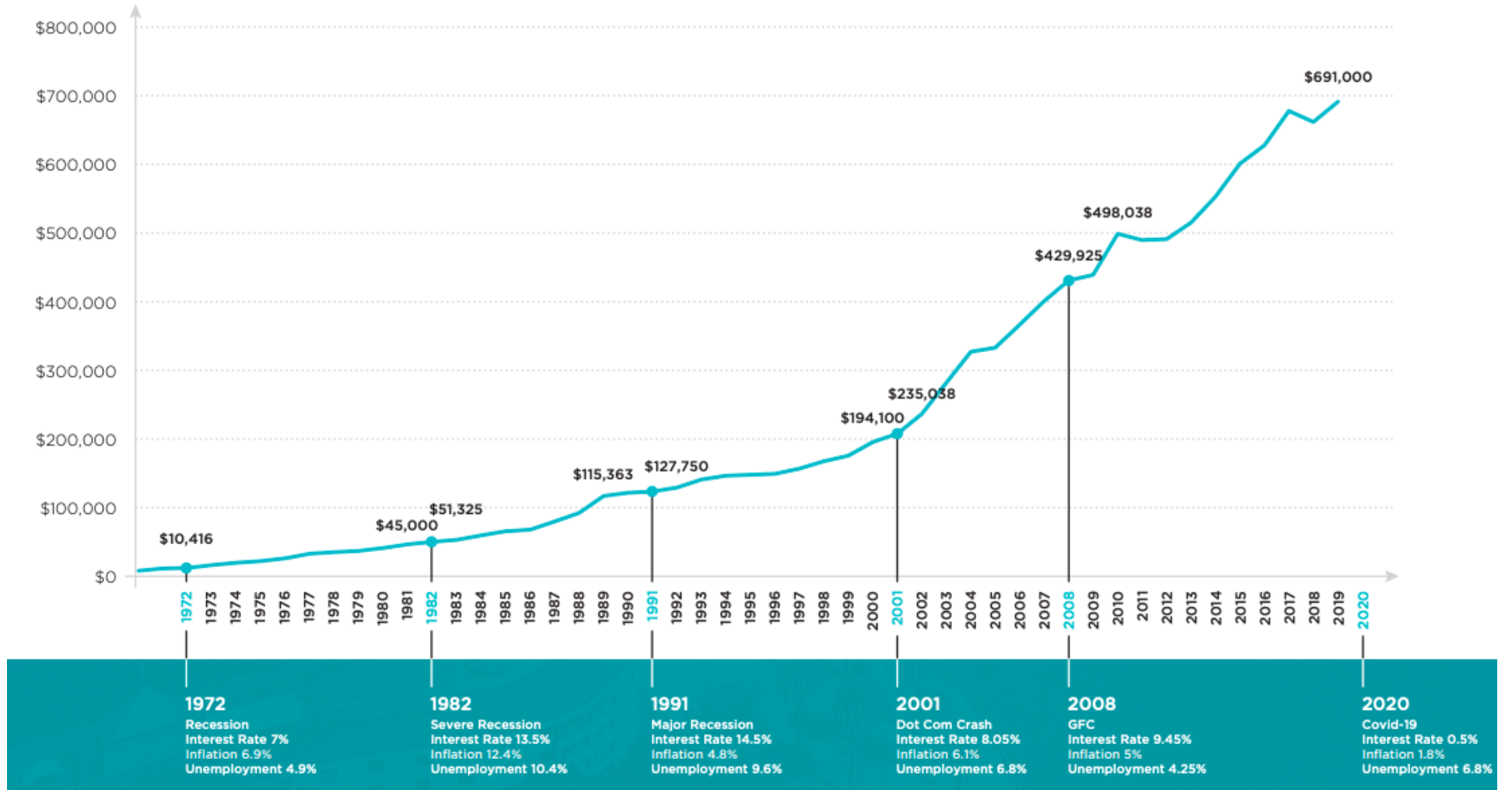
Research

1. National update – The year that was COVID
2. Perth Update – local data

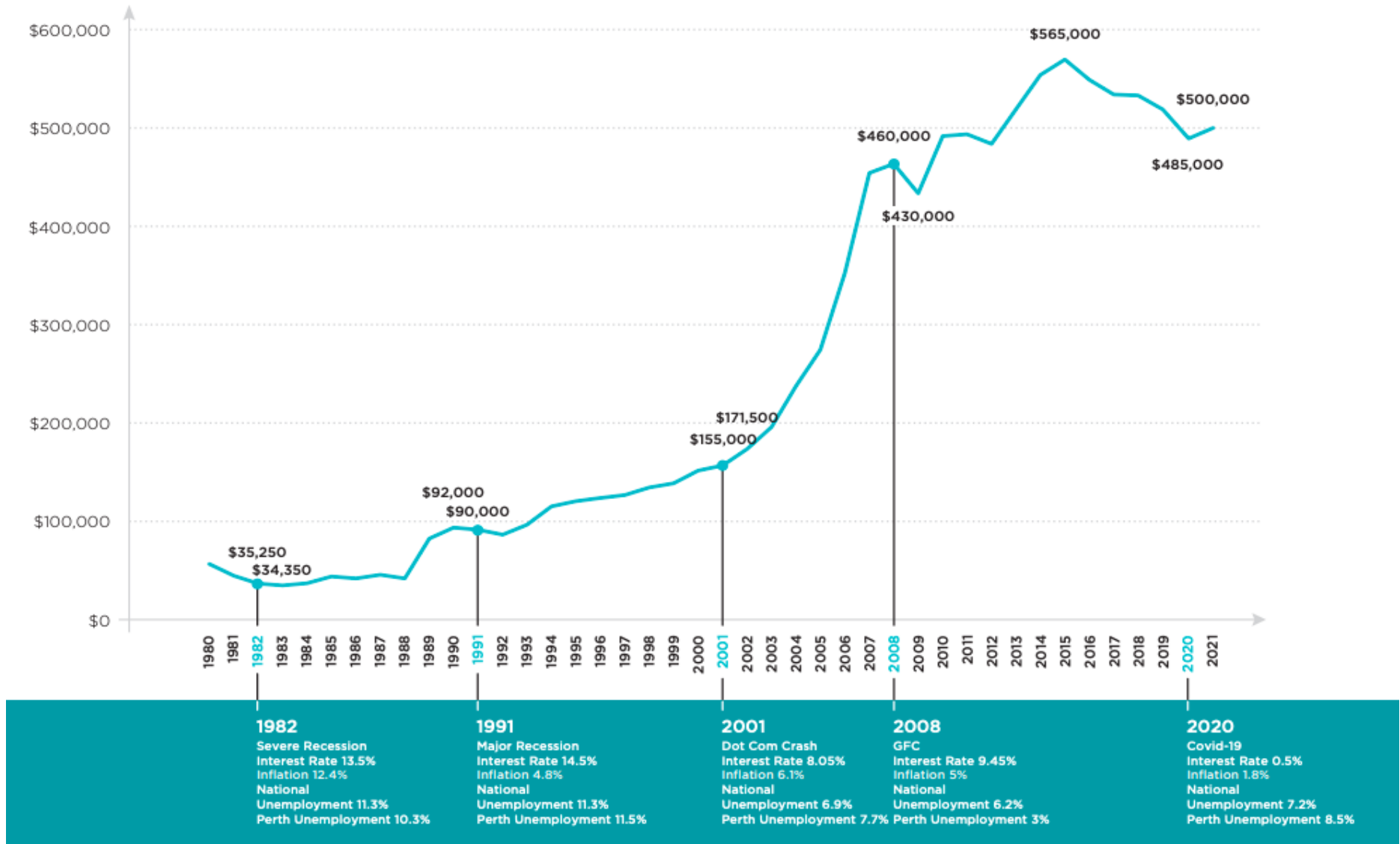
Strategy

3. PPA Process
4. Investment/home purchase examples

House Price Movement National



House Price Movement Perth



House Price
Movement
National

Annual Growth as of Sept 30 2021

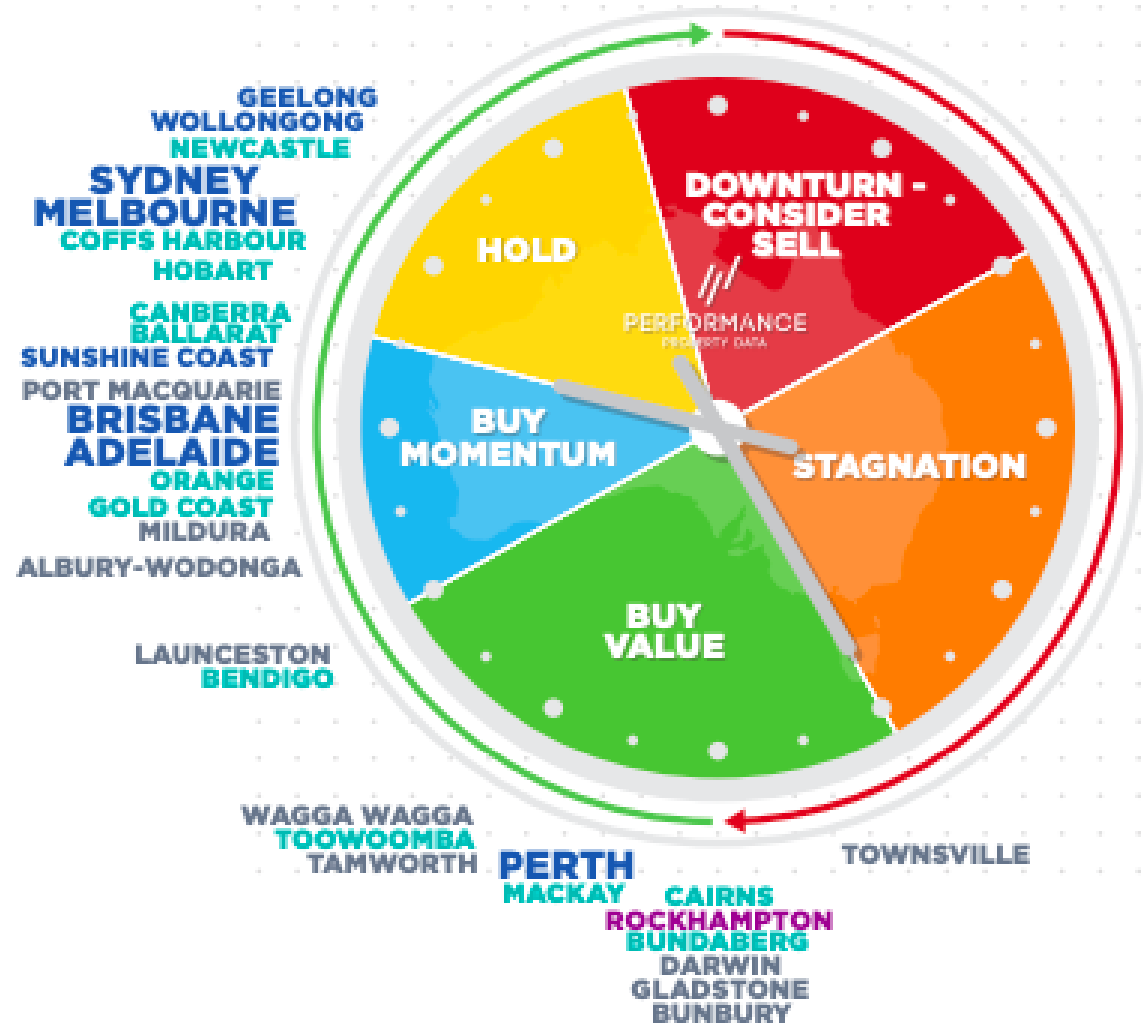
	House Growth	House Median	Unit Growth	Unit Median
Sydney	23.6%	\$1,056,093	11.6%	\$824,860
Melbourne	15.0%	\$775,142	8.3%	\$619,443
Brisbane	19.9%	\$625,291	8.8%	\$430,000
Adelaide	19.1%	\$529,376	5.7%	\$367,079
Perth	18.1%	\$524,589	15.0%	\$398,502
Hobart	26.8%	\$659,622	31.1%	\$542,464
Darwin	20.2%	\$481,767	23.3%	\$353,158
Canberra	24.4%	\$838,904	11.6%	\$538,071
All Capitals	19.5%	\$759,753	10.4%	\$625,485

National Property Clock

- APPROX 7 YEARS CAPITAL CITY / 5-10 YEARS REGIONAL
- APPROX 4-7 YEARS CAPITAL CITY / 5-10 YEARS REGIONAL

LEGEND - CITY COLOUR CODES

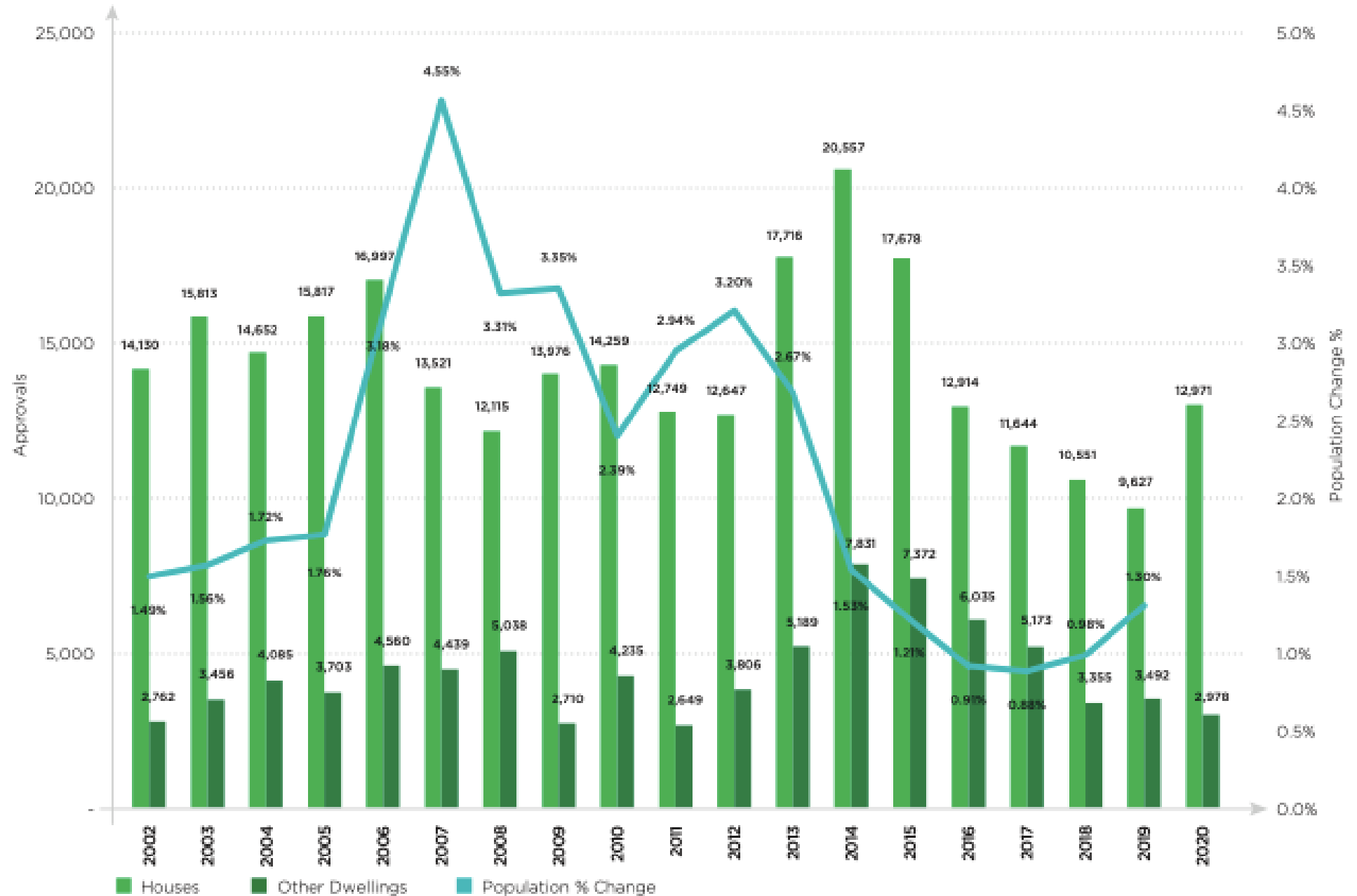
- AAA - 7.5% + PA GROWTH
- BBB - 6.5%-7.4% PA GROWTH
- CCC - 5.5%-6.4% PA GROWTH
- DDD - <5.5% PA GROWTH



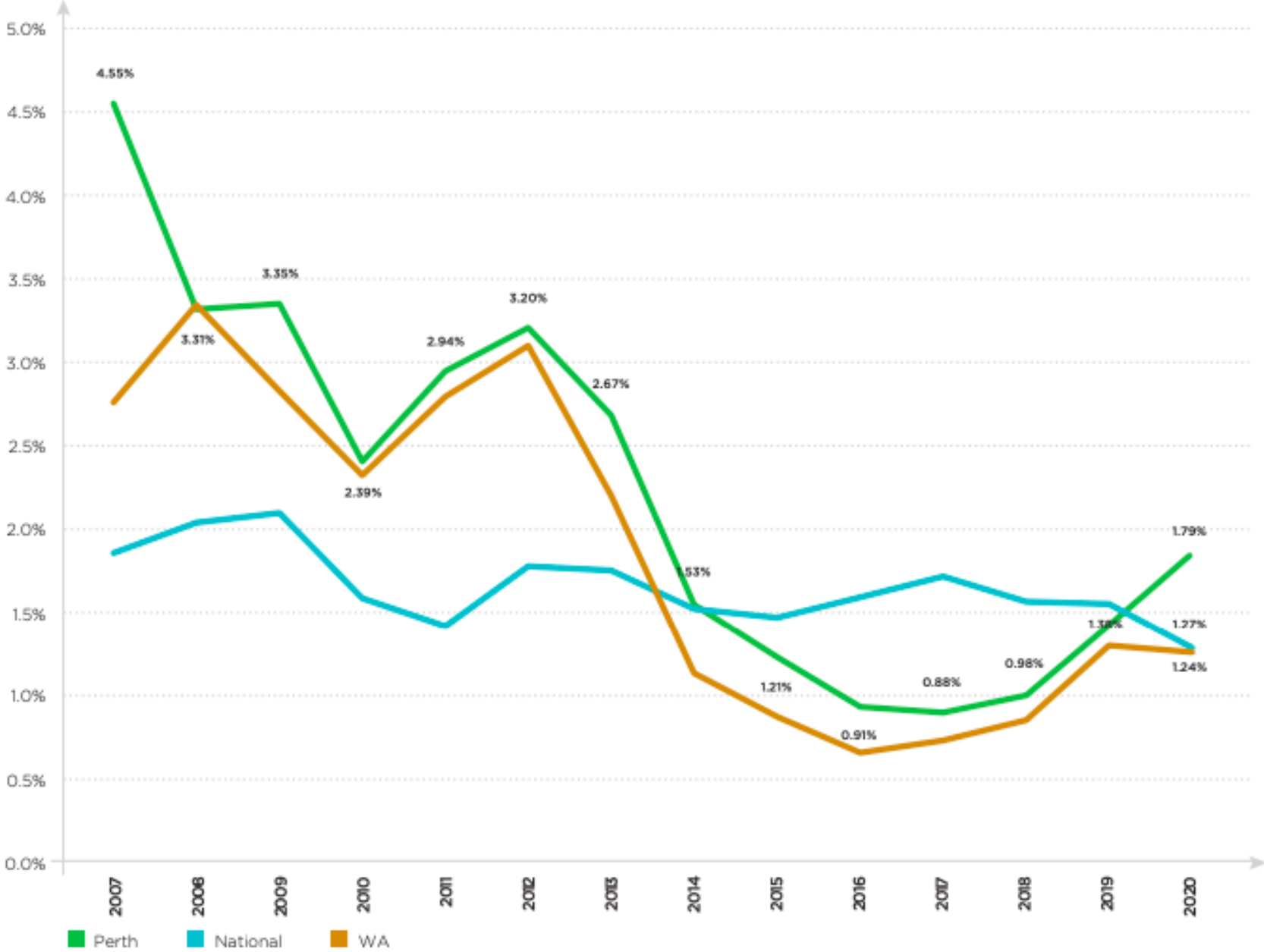
Perth



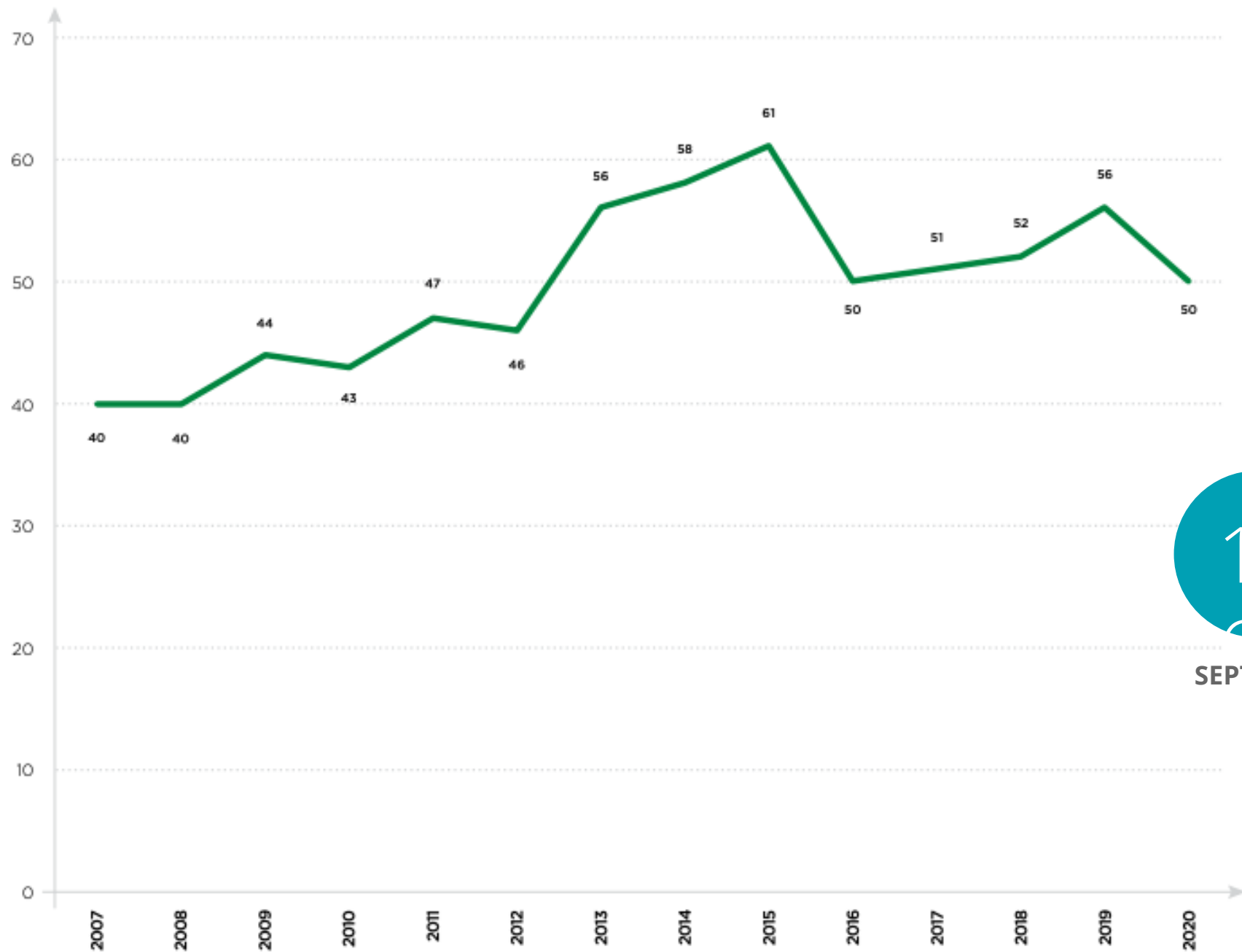
Dwelling Approvals V Population



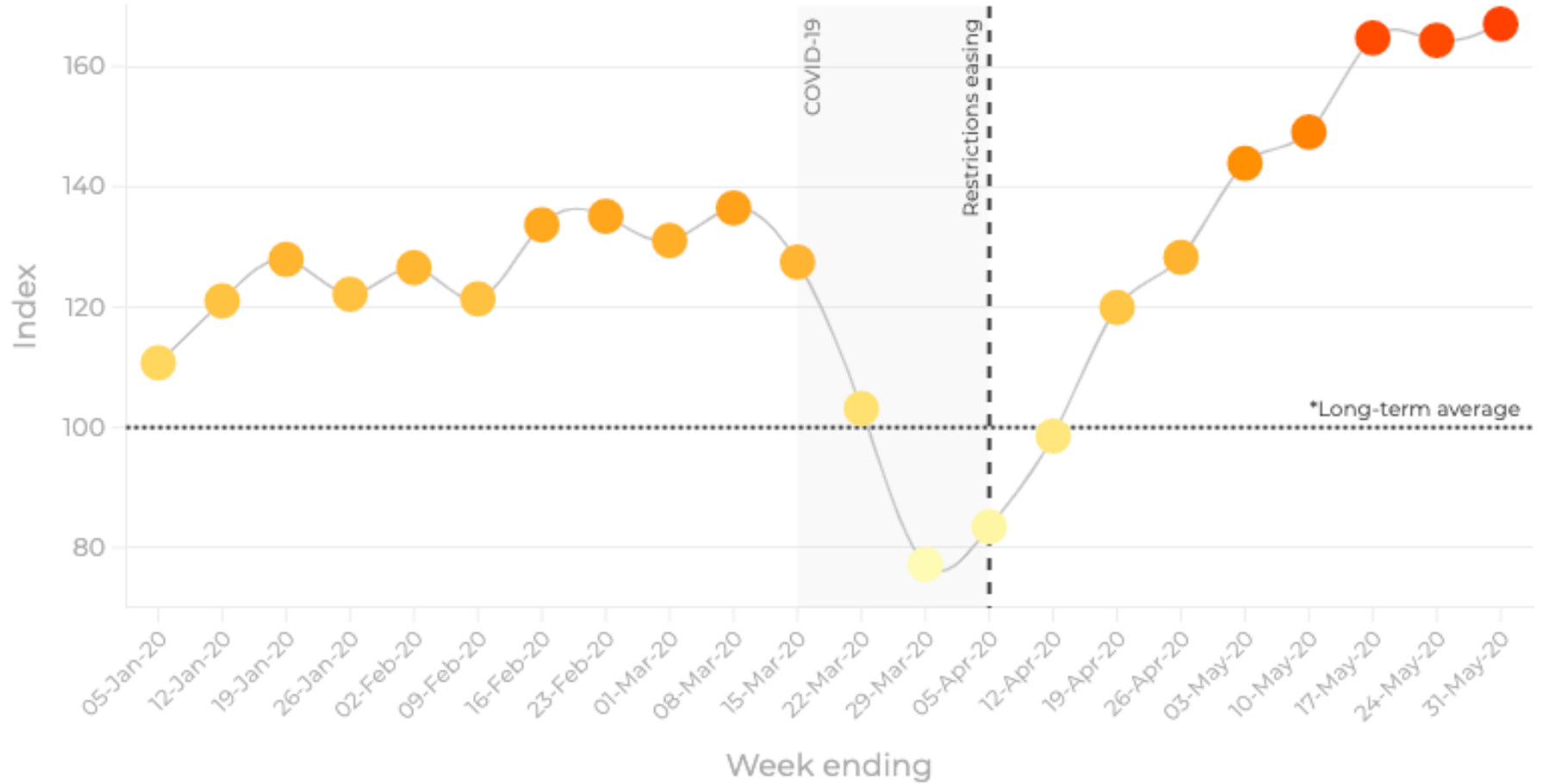
Change in Population



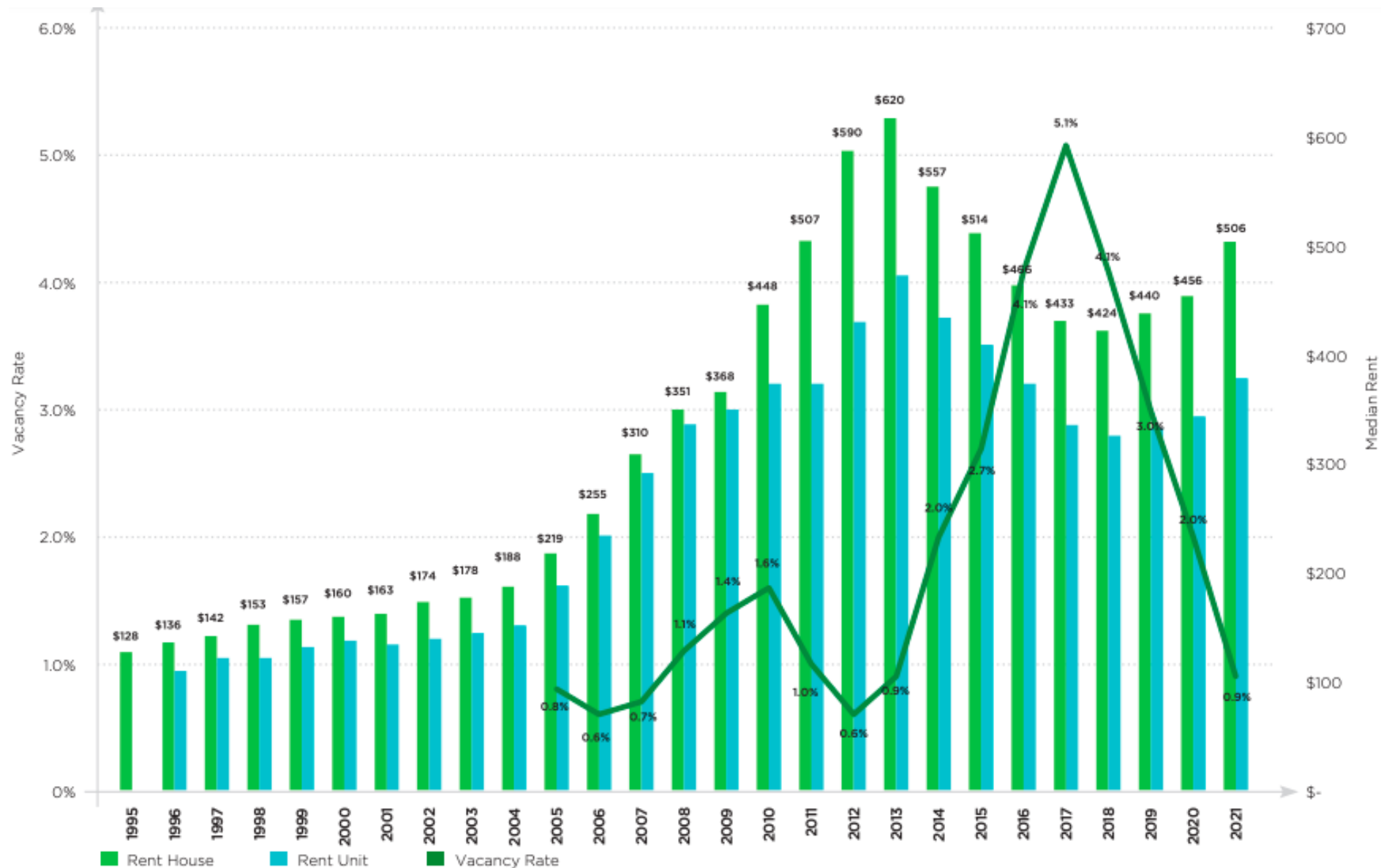
Average Days on Market



REA Insights
Weekly
Demand Index
Buyers WA



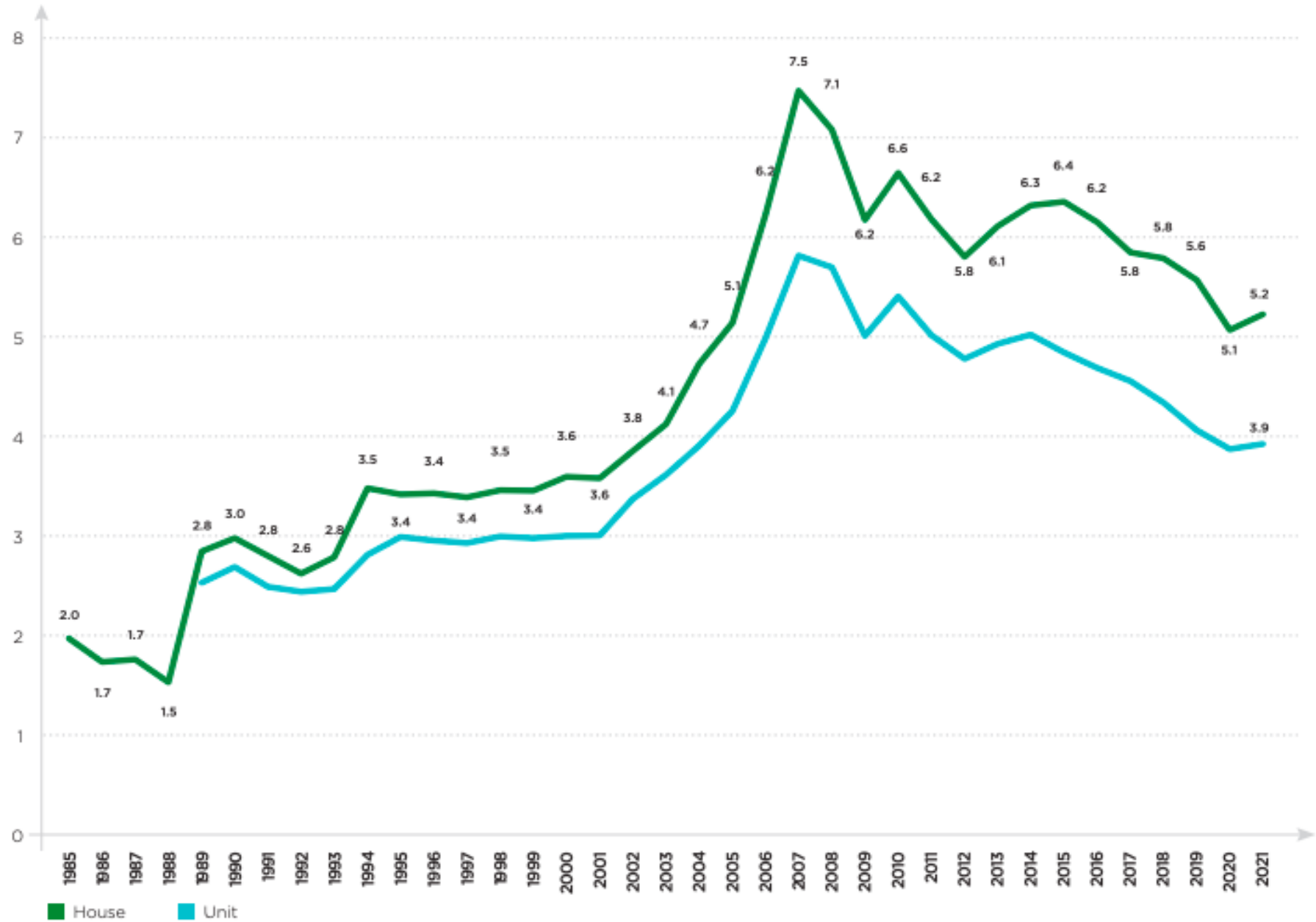
Vacancy Rates



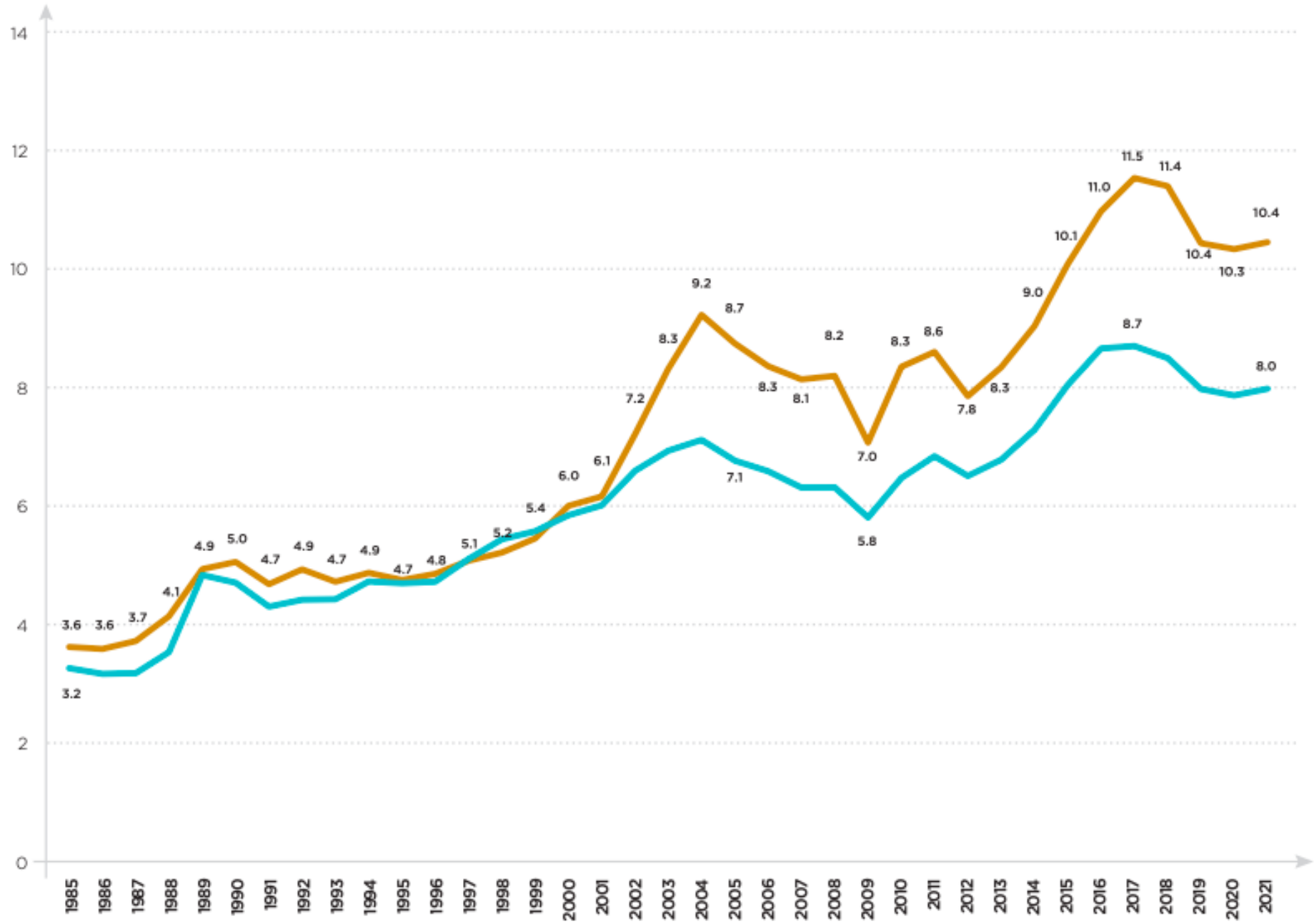
Affordability



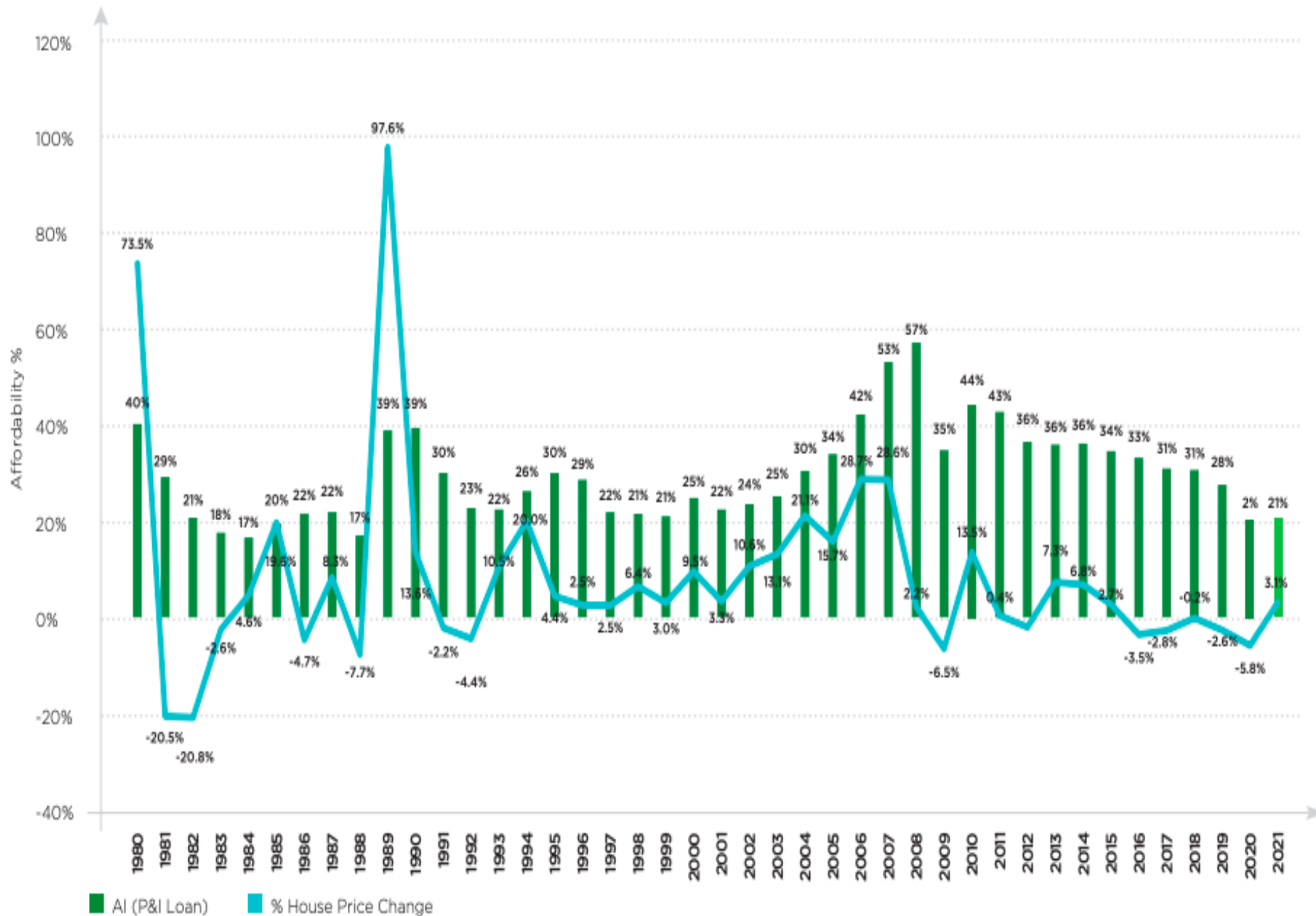
Price to Income Ratio Perth



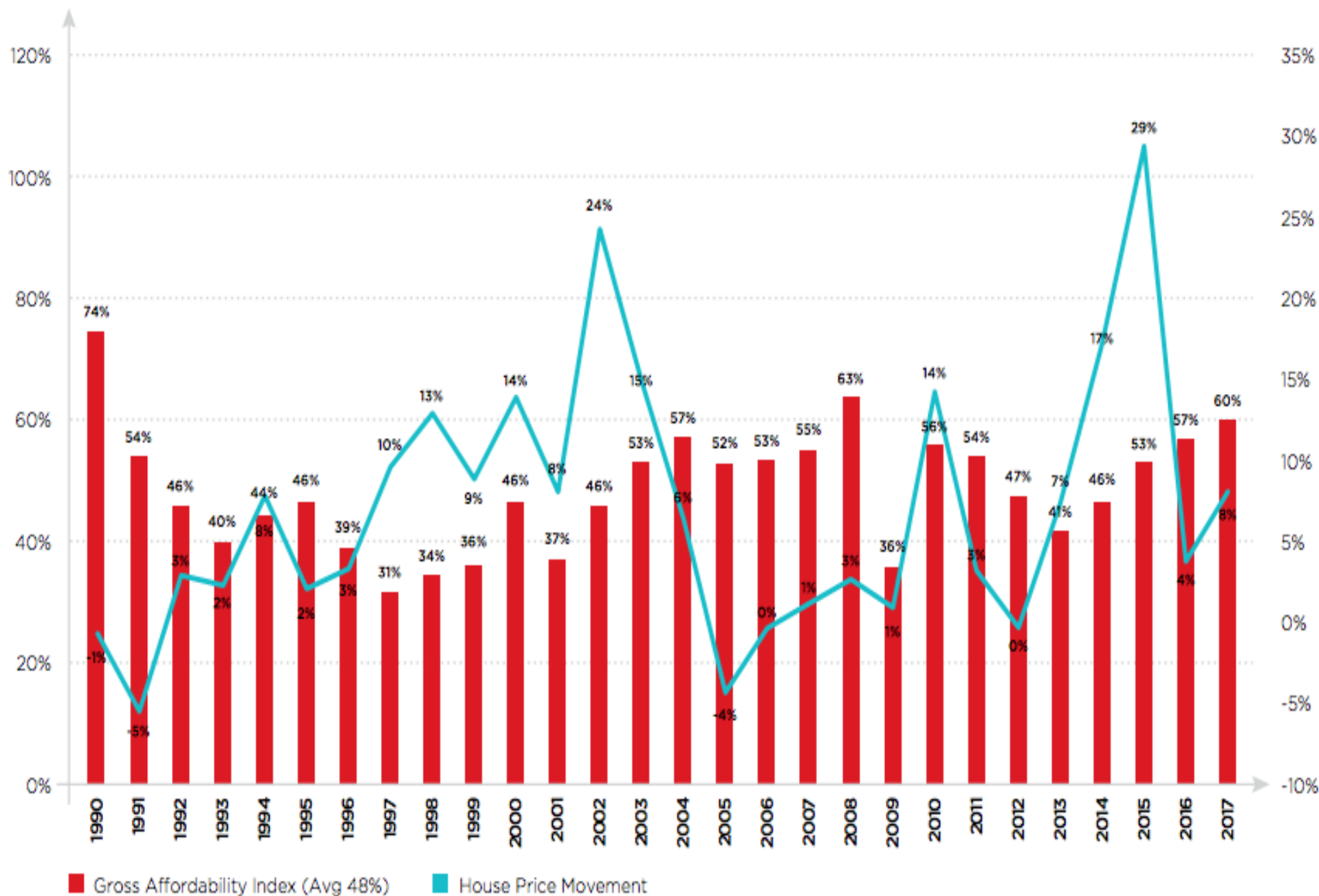
Price to Income Ratio Sydney



Perth Affordability Index



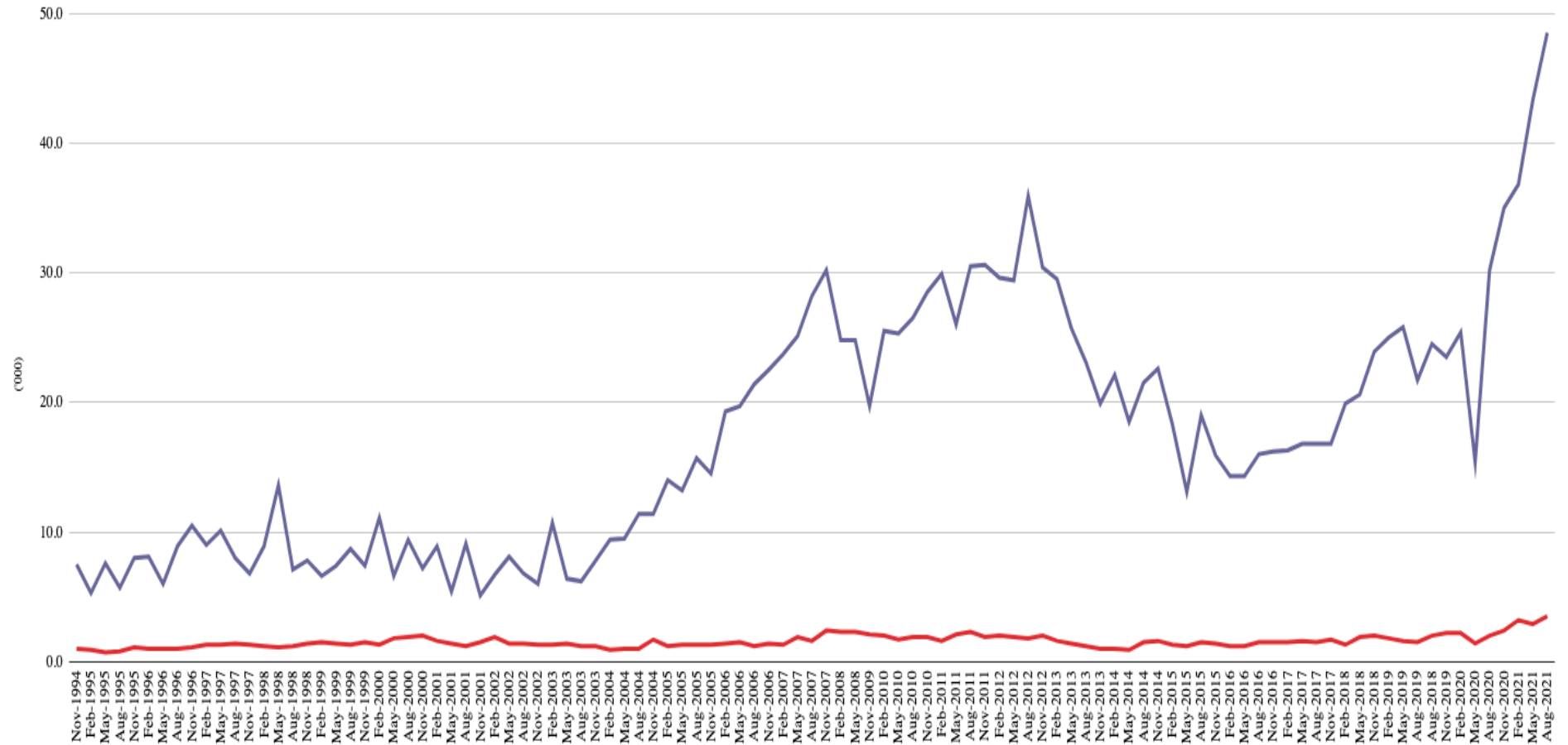
Sydney Affordability Index



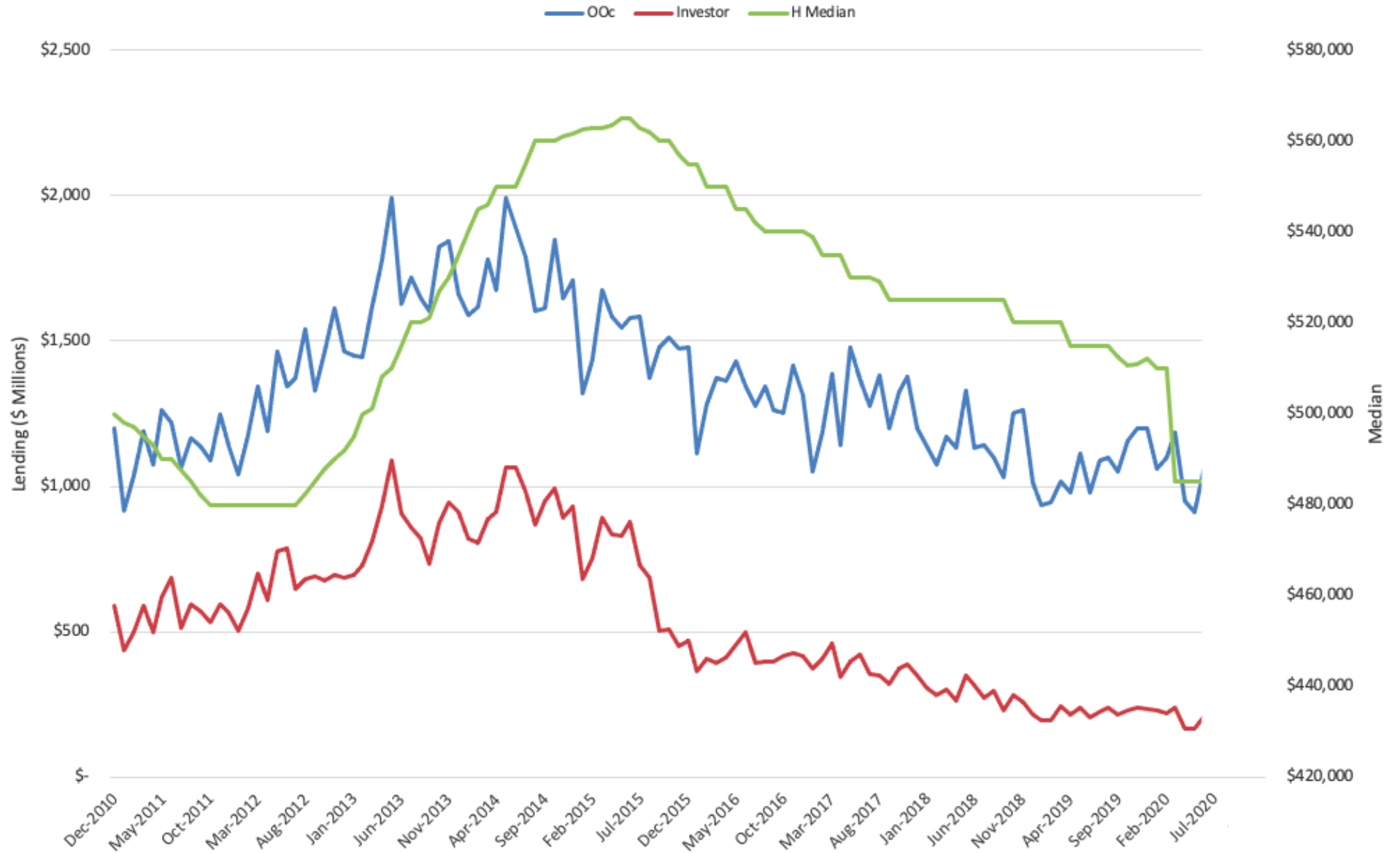
Confidence



Job Vacancies WA

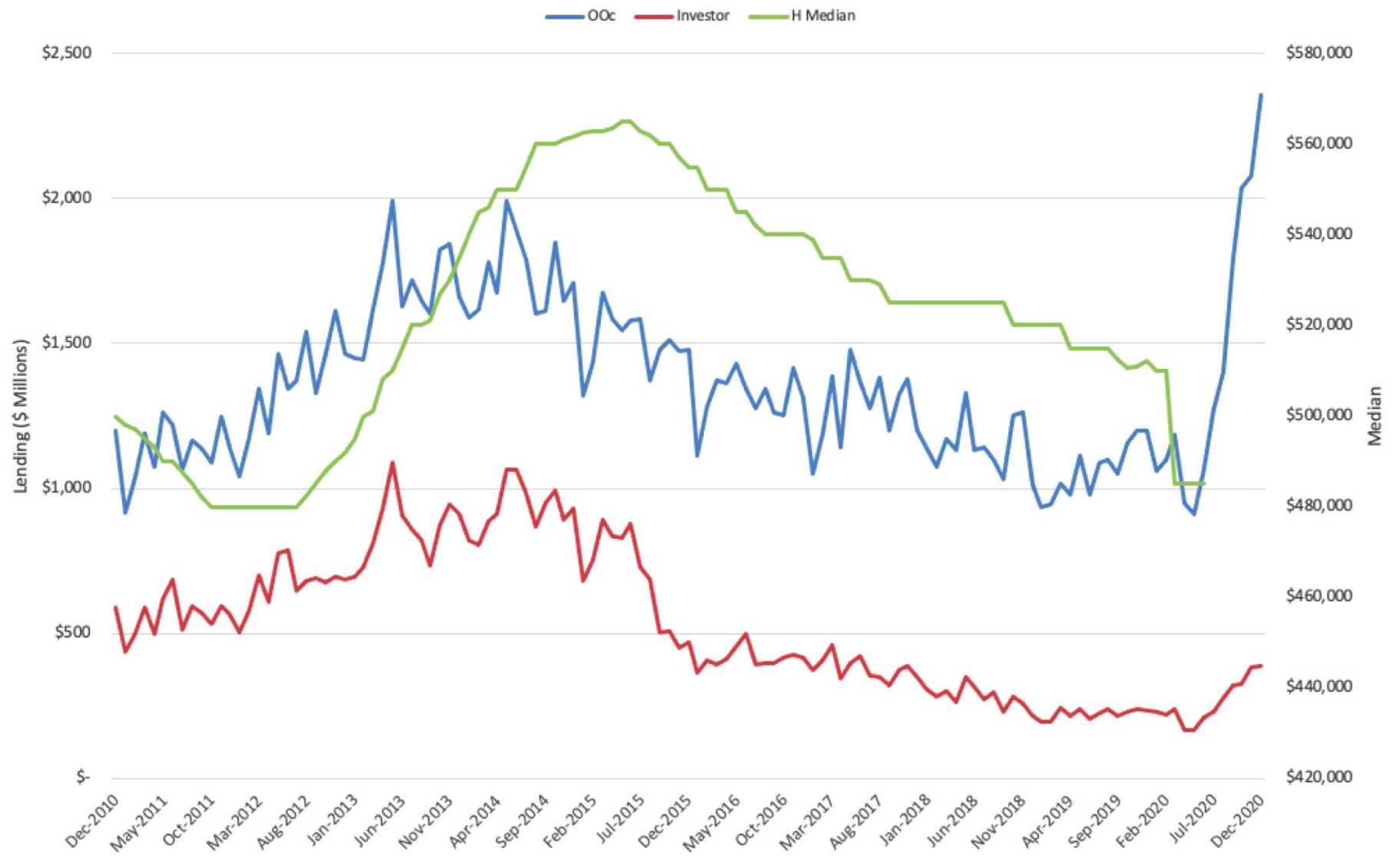


Lending Data (July 2020) WA

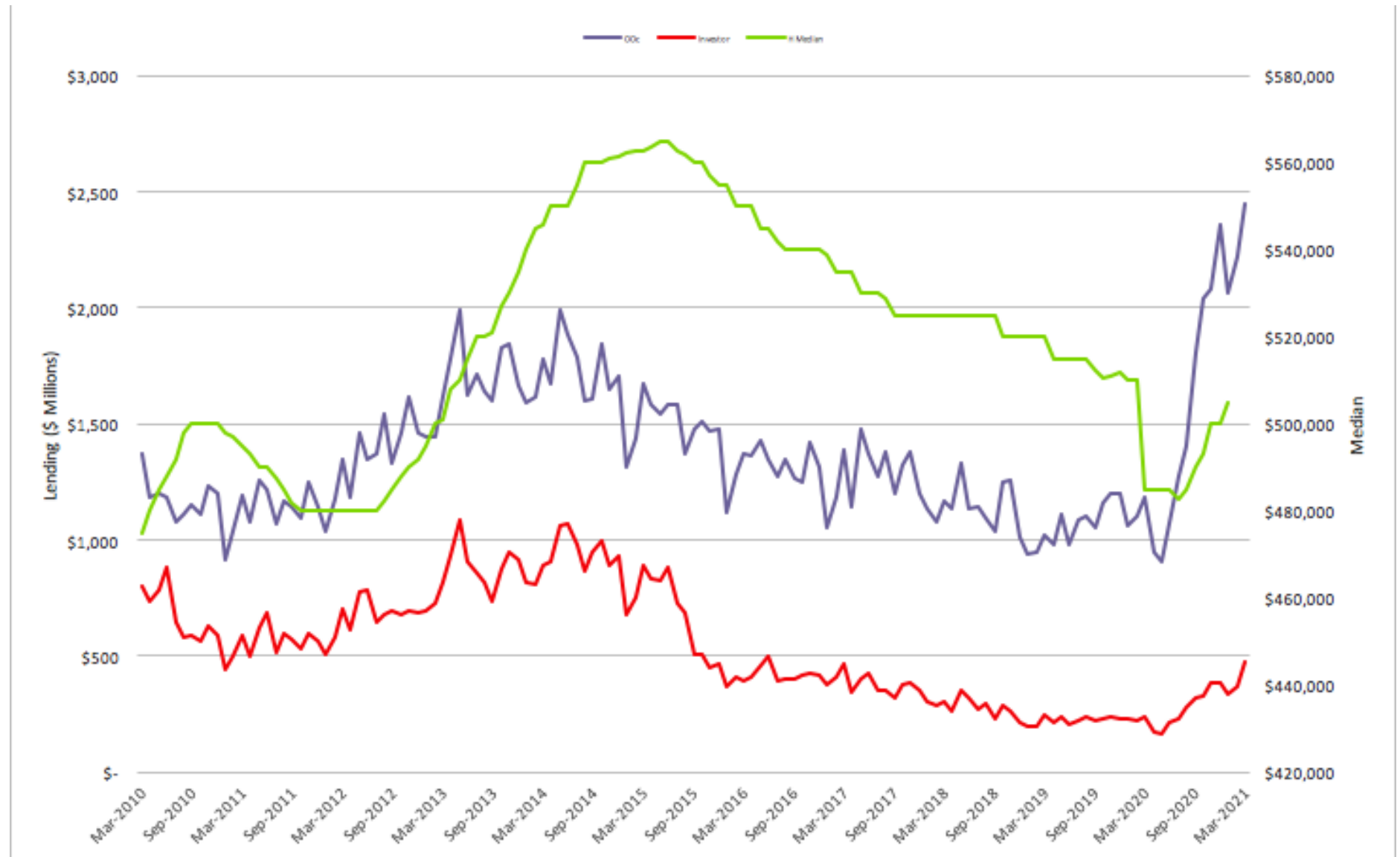


Lending Data (Mar 2021)

WA



Lending Data (Mar 2021) WA



Summary



Macro Indicators Perth

SUPPLY & DEMAND - Slightly Positive Does Demand Exceed Supply?

- Population
- WA Population Movement Type
- WA HH Lending Oc V investor Monthly
- WA HH Lending Oc V investor Annualised
- Foreign Investment
- Airport Arrivals
- Iron Ore V. Median House Price
- Dwelling Approvals V. Population % Change
- Bedrooms V. Population Change
- Vacancy Rate V. Median Rent
- Stock on Market
- Avg Days on Market

AFFORDABILITY - Positive Is Property Affordable?

- Affordability Index HOUSE V. Price Movement
- Affordability Index UNITS V. Price Movement
- Price to Income Ratio
- Rent to Income V Affordability
- FHBs as % of Population

CONFIDENCE - Neutral Is There Confidence In The Market?

- Retail Turnover Growth
- Unemployment Rate
- Underemployment Rate
- Job Creation Index
- State Job Vacancies
- Business Investment
- WA Mineral Exploration Expenditure
- Infrastructure Spending per Person

MONEY SUPPLY - Positive Will There Be More or Less Money into The Economy?

- State Budget
- Net Debt as % of GSP
- Gross State Product V. Median Price Movement
- Economic Benefit V Median House Price

INVESTMENT VALUE - Positive Is This Market Showing Value?

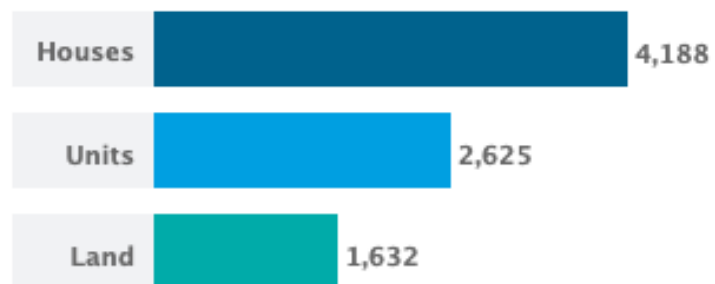
- Current Investment Value - Per Capital City
- Yield V. Interest Rates
- Capital City Long Term Price Comparison House
- Long Term Trends
- Perth V. Sydney HOUSE Price Movement

RISK - Neutral Is There Potentially Downside Volatility?

- Mortgage Arrears
- Industry Value Added
- Population Pyramid



Properties listed for sale



Total:	8,445
Four weeks ago:	8,509
Same week last year:	10,421

Properties available for rent



Total:	2289
Four weeks ago:	2324
Same week last year:	2974

Strategy



Where are we Investing in Perth



Buying
Suburbs



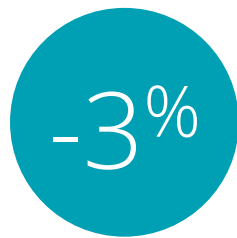
Growth
Rate



Vacancy
Rate



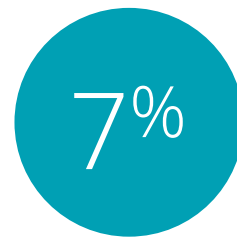
Online
Demand



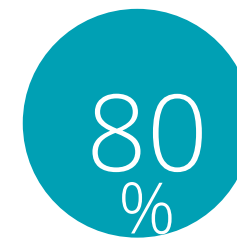
Stock on
Market



Days on
Market



Total
Housing
Commission



Established
Dwellings

Buying Methods



Owner Direct



Rentals



Pre-market



Silent Listing



Terms



Conditions



Mortgagee
in
Possession

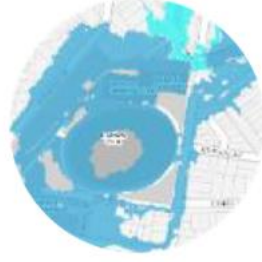


Subject Sale

Due Diligence



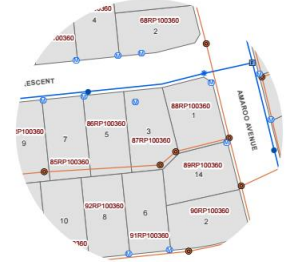
Zoning and Council overlays



Flooding



Housing Commission Check



Easement Review



Legal Check from Independent Solicitor/Lawyer



Adjoining Uses



Noise Check



Sale Frequency



Independent building and Pest Inspection



Site Contamination



Flight Path



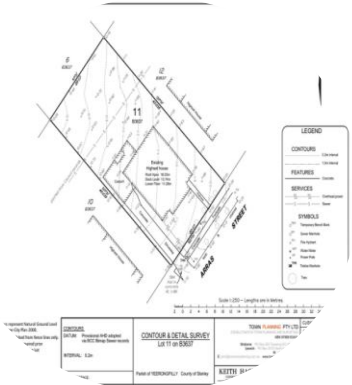
Moisture

Elective Due Diligence

Meth Testing



Survey Plan



Non-Conforming Structure



Electrical Audit



Plumbing Audit



Investment Report



Investment Property Report
Prepared 20 November 2018 by Phillip Almeida



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7 Dane Street East Victoria Park WA

Location

Walk Score: 79 out of 100 ?
Very Walkable

Restaurants:
Batavia Corner .1km

Coffee:
The Sparrow's Nest .1km

Bars:
Balmoral Hotel .2km

Groceries:
Organic Cafe .1km

Parks:
Kate Street Reserve .4km

Shopping:
Crow Books .2km

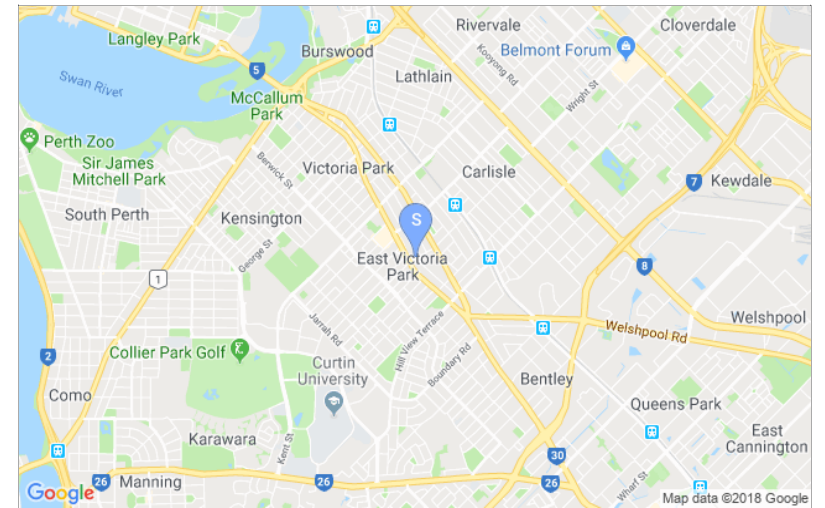
Entertainment:
Chateaux Fredericksen 1.9km

Errands:
Friendlies Pharmacy East Victoria4km

Search Nearby:

Where do you commute?

Region Flyover



Investment Report

7 Dane Street East Victoria Park WA

30 point grading system

Overall Grade: **Investment grade**

Property attributes

Land Content	Average	Average land content for type of property
Scarcity Factor	Average	Property scarcity is average for the area
Building Quality	Above Average	Above average construction quality
Natural Light	Average	Average natural light
Privacy	Above Average	Above average privacy
Noise	Above Average	Quiet Location
Price Risk	Average	Price point is around the suburb average
Orientation	Above Average	Northern orientation with average building positioning
Outdoor Space	Excellent	Excellent outdoor space
Parking	Average	Some on site parking
Internal Floor Plan Flow	Above Average	Good flowing floor plan
Slope	Average	Slight slope or partly sloped
Outdoor Access and Flow	Above Average	Good indoor/outdoor flow
Stand Alone	Above Average	Completely freestanding
Stairs	Excellent	Single level, or lift
Shape/Frontage	Average	Regular allotment with standard frontage
Value Add Opportunity	Above Average	Value add opportunity within the next 3-5 years
Building Condition	Above Average	Above average condition
Views	Average	Average outlook

Position attributes

Security of the Area	Above Average	Safe area
Public Transport	Excellent	Rail/Ferry transport located within 750m
Street Scene/Traffic Flow	Above Average	Quiet Street
Properties Adjoining	Above Average	Attractive surrounding properties
Distance From CBD	Average	More than 5km from the CBD
Average Area Income	Above Average	Above average income area
University/Schools in Area	Above Average	Multiple schools located within 3km
Café	Excellent	Café located within 500m
Shops	Excellent	Strip shopping located within 750m
Proximity to Open Space	Average	Open space located within 1km
Proximity to Ocean/Bay/River	Average	Ocean/Bay/River located between 1-5km

7 Dane Street East Victoria Park WA

Cashflow

Cost of property

Top Budget		\$ 670,000
Maintenance allowance	\$ 7,000	
Cosmetic works allowance	\$ 0	
SUB-TOTAL		\$ 677,000

Acquisition costs - One-off

Stamp duty		\$ 28,420
Performance Property consultancy fee	2.75 %	\$ 18,425
Loan fees, title transfer		\$ 700
Conveyancing/Legal		\$ 1,500
Due diligence reports (Pest / Building / Strata)		\$ 600
Depreciation schedule		\$ 650
Professional clean		\$ 500
SUB-TOTAL		\$ 50,795
Total acquisition cost		\$ 727,795

Running Costs

	Loan to value	Interest rate	Loan amount	
Finance - Interest amount	80 %	5 %	\$ 536,000	\$ 26,800
Property management	\$ 450	Let fee	7.7 %	\$ 1,801.8
Provision for repairs & maintenance		10 %		\$ 2,340
Strata fees				\$ 0
Rates and utilities				\$ 3,350
Land tax				\$ 355.5
Insurance				\$ 1,675
Total running cost (approx)				\$ 36,771

Rental income

	Weeks	Rent pw
	52 wks	\$ 450
Total rental income (approx)		\$ 23,400

Relevant financial data

Gross yield		3.49 %
Secured loan		\$ 536,000
Net yield		2.42 %
Cash flow per annum		\$ -13,371
Client required capital	\$ 191,795	Cash flow per week
		\$ -257.13

Pricing



Methods of valuation



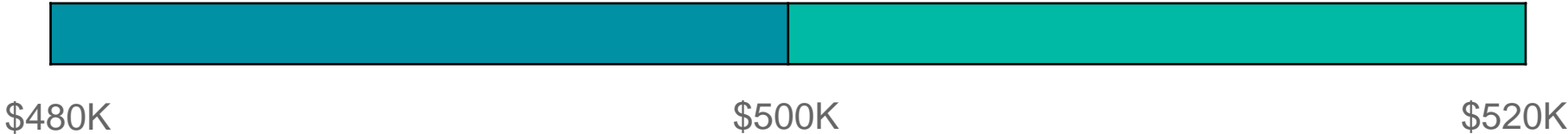
Comparables per property



Hours per property



Walk away price



Client Experience With Us



About Performance Property



PPA is a research-driven, full-service property advisory company dedicated to helping time poor professionals interested in growing established **Residential & Commercial** property portfolios with a countercyclical focus.

We offer a premium, advice-driven home buying service.

We have a team of 70+ staff across 5 capital cities, with experience in over \$3 billion worth of property transactions within Victoria, New South Wales, Queensland, South Australia and Western Australia.

Questions?



www.performanceproperty.com.au



www.performancedata.com.au



www.pathwayam.com.au



www.buyerx.com.au



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Finance

Paul Moran



Age Versus Loan Term

- Responsible lending requires lenders to take into account the ongoing nature of income used to service the member's current and proposed commitments.
- Therefore, the term of the loan and the expected timeframe that the income will remain in place are important aspects of the approval process.
- APPLICANT: *Age vs. term policy*
 - Special care needs to be exercised when an applicant will cease work during the term of the loan (i.e. the age of the applicant plus the loan term will exceed their stated retirement age).
 - In these circumstances, as well as confirming current income, it will be necessary to confirm the members expected financial position and ability to repay the loan in retirement.



Age versus Loan Term

- This is commonly known as the '*exit strategy*'. The suitability assessment will capture the member's intentions post retirement and will detail their likely exit strategy.
- Repayment ability ***post-retirement*** may be demonstrated in several ways:
 - Alternate income streams such as continuing investments, superannuation, part time work, and pensions.
 - Repayment from sale of surplus assets (cash, superannuation, property, shares). This should be evidenced by way of a current statement of the asset or title search confirming ownership of the property.
 - Repayment from downsizing of home by moving from a higher value dwelling to a lower cost dwelling. The lender should test this scenario against current real estate prices to ensure that there is sufficient equity within the existing property to consider the scenario realistic.



Age versus Loan Term

- Age vs. Term Rules
 - Age plus term < 65 – no action required given the loan will be repaid within the expected retirement age.
 - Age plus term > 65 – the lender records the exit strategy or member's ongoing method of repayment within the suitability assessment, and actions the age vs. term checklist.
 - Supporting evidence of this strategy is then obtained and verified.



Investment Property Loans

- Changes made by APRA (Australian Prudential Regulation Authority) from December 2014 onwards to allow **more Owner Occupier purchases** and **reduce demand for Investment property purchases**
- Why? In 2014, APRA was concerned with Sydney and Melbourne property markets growing at 20% the previous year.
- APRA introduced requirements that no Financier may have investment portfolio growth **above 10%**.
- New **interest-only** lending to be **capped at 30%** as a share of total new residential lending
- Some of these restrictions have now been lifted, however APRA intended these changes to be made permanent in order to strengthen lending standards



What Does it Mean?

- LVR reduced on “investment properties” to a 90% Maximum (incl. LMI). Owner Occupier up to 95% incl LMI, a few still 95% plus LMI.
- Postcode restrictions (Areas such as Karratha, Port Hedland – 50% - 70% LVR, or further discount of Rental income).
- Discounting Rental income to 75%-80% of actual rental.
- Serviceability Assessment Calculations are tighter, for example:
 - Some lenders do not allow the inclusion of negative gearing,
 - Increased living allowance buffers (Detailed Living expense worksheet sometimes confirmed by transaction statements)
 - Increased sensitised rates (Base rates, plus a margin 2.5%, less any discount or Base/Floor rates introduced, currently around 5.25%)
 - All loans assessed on “Principal & Interest” basis. (One or two lenders still allow actual OFI repayments).
- Interest-only are more heavily scrutinised with reduced periods, so the debt is calculated for serviceability purposes over 25 yrs compared to 30 yrs
- Rate increases (from 0.1% - 1%) on investment loans compared to home loans depending upon the lender.



Not All Bad News!

- Rates are at an all time low.
- Some variable rates below 2%, common fixed rates for 1-2 years below 2%.
- Some Banks paying \$2k-\$3k to re-finance your home loan
- Most Banks waive application fees, valuation fees
- Banks starting to be more engaging, trying to make an application work by negotiation. For example:
 - Reduce or cancel a credit card to fit serviceability
 - Allowing a personal loan to borrow to meet the additional 20% deposit plus fees providing it still meets serviceability.
- Federal Government has indicated a change of requirements around responsible lending guidelines to ease the onerous requirements for brokers/lenders and borrowers such as detailed investigation of clients living expenses. This would also assist with more timely decision making.



Mortgage Serviceability vs. Renting

- Servicing a mortgage is now cheaper than renting on over a third of Australian properties, according to research and analysis from CoreLogic
- 36.3% of properties are cheaper to buy & service a mortgage rather than rent.
- Pre-COVID this figure was 33.9%
- This looks different across the country (see next slide)
- Perth's home values have risen 18% in the past 12 months, and this looks set to continue into 2022



Mortgage Serviceability vs. Renting (cont.)

Greater Capital city or rest of state region	Portion of Cheaper to Buy	Portion of Cheaper to Rent
National	36.3%	63.7%
Combined Capital Cities	26.2%	73.8%
Combined Regionals	60.1%	39.9%
Regional NT	96.4%	3.6%
Darwin	86.5%	13.5%
Regional SA	79.4%	20.6%
Regional WA	79.4%	20.6%
Regional Qld	73.1%	26.9%
Regional Tas.	71.4%	28.6%
Perth	59.6%	40.4%
Brisbane	55.3%	44.7%
Hobart	50.2%	49.8%
Regional NSW	48.2%	51.8%
Adelaide	47.4%	52.6%
ACT	43.6%	56.4%
Regional Vic.	43.6%	56.4%
Melbourne	7.3%	92.7%
Sydney	4.9%	95.1%

Source: CoreLogic. Mortgage assumptions used were an 80% loan to valuation ratio (i.e. it assumed the buyer had a 20% deposit saved), an interest rate of 2.4% (based on the average new lending rate for owner occupiers reported by the RBA at May 2021), and a 25 year loan term. No mortgage fees or transaction fees are assumed. The Loan value is derived based on the individual property value estimate. Rental repayments are based on the CoreLogic rental estimate of the individual property.



Mortgage Serviceability vs. Renting: Perth

Perth Region	Portion of Cheaper to Buy	Portion of Cheaper to Rent
Mandurah	74.0%	26.0%
North East	64.9%	35.1%
South East	62.8%	37.2%
South West	59.9%	40.1%
North West	58.1%	41.9%
Inner Suburbs	39.0%	61.0%



Negative Gearing & CGT

Ben Teti



Gearing – What's the difference?

Positive Gearing

Positive gearing is when your deductible expenses are less than the income you earn from the property and resulting in a **net rental profit**. This net rental profit is then added on top of your other income such as wages, salary and/or business income and subject to your marginal tax rate.

Negative Gearing

Negative gearing occurs when your deductible rental expenses are more than the income you earn from the property resulting in a **net rental loss**. This rental loss may then be able to be used as a tax deduction against your other income such as wages, salary and/or business income.



So what should I be working towards?

- The **ultimate goal** in investing whether it be in property or shares, is to be positively geared as that is when you are making money on those investments.
- With the recent cuts to interest rates by the Reserve Bank over the years, it presents a great opportunity for people to achieve positive gearing.
- Certainly, when you first invest in property it is likely that the investment will be negatively geared due to the interest on the loans, depreciation and other expenses. This is not a bad thing, as long as you have a long term strategy to be positively geared.



...but doesn't Negative Gearing save tax?

- Yes, negative gearing does provide some tax incentives as the net rental loss reduces your taxable income.
- However, there is a common misconception that negative gearing is the aim because of the tax incentives it can provide. To put it into simple terms; why would you spend \$1.00 to save \$0.30?
- A long term negative gearing investment strategy relies **heavily** on property values rising so if you are looking to invest in property, it's important to seek advice from those who are in the know on potential growth areas.
- Negative gearing can be good when done right.



Case Study One: Positively Geared

For the purpose of the case study, please assume the following facts:

- Your taxable income for the year is \$90,000
- Your Investment property is worth \$500,000 with a \$400,000 loan.
- The loan is interest only (no principal repayments) at 2.60% or \$10,400 for the year.
- Rent is \$400 per week (\$20,800 per annum).
- Rental expenses such as council rates, repairs and other costs total \$7,000 per year.



Case Study One: Positively Geared

The likely tax impact on this positively geared investment is an additional tax liability of \$1,275 inclusive of Medicare Levy and tax offsets. As a result, **your net cash position is \$2,125.**

Rental Income	\$20,800
Interest expense on loan	\$10,400
Other expenses	\$7,000
Net profit on rental	\$3,400



Case Study Two: Negatively Geared

For the purpose of the case study, please assume the following facts:

- Your taxable income for the year is \$90,000
- Investment property is worth \$500,000 with a \$400,000 loan.
- The loan is interest only at 2.60% or \$10,400 for the year.
- Rent is \$400 per week (\$20,800 per annum).
- Rental expenses such as council rates, repairs and other costs total \$12,000 per year.



Case Study Two: Negatively Geared

The likely tax impact on this negative geared investment is a \$552 refund due to the loss acting as a tax deduction against your taxable income. As a result, **your net cash position is -\$1,048** despite the tax refund as you are still physically out of pocket on the rental expenses.

Rental Income	\$20,800
Interest expense on loan	\$10,400
Other expenses	\$12,000
Net profit on rental	(\$1,600)



Case Study Three: Negative Gearing with Positive Cash Flow

For the purpose of the case study, please assume the following facts:

- Your taxable income for the year is \$90,000
- Investment property is worth \$500,000 with a \$400,000 loan.
- The loan is interest only at 2.60% or \$10,400 for the year.
- Rent is \$400 per week (\$20,800 per annum).
- Rental expenses such as council rates, repairs and other costs total \$7,000 per year.
- You purchased a quantity surveyors report that advised you can claim \$5,000 in depreciation.

BMT Tax Depreciation
QUANTITY SURVEYORS



Case Study Three: Negative Gearing with Positive Cash Flow

The likely tax impact on this negative geared investment is a \$552 refund (similar to the above). The difference being that depreciation is the wear and tear on the property and is a non-cash expense. As a result, **your net cash position is \$3,952** despite being negatively geared for tax purposes but overall, you're not physically out of pocket on the rental expenses.

Rental Income	\$20,800
Depreciation	\$5,000
Interest expense on loan	\$10,400
Other expenses	\$7,000
Net profit on rental	(\$1,600)



Gearing - The Bottom Line

- As you can see from the above, how your property is geared has a significant impact on the bottom line with a difference of \$3,173 of additional cash between case studies 1 and 2 in just one year.
- While negative gearing does create tax incentives in the form of additional deductions, it may not be sustainable if it is a long-term strategy and property values aren't increasing.
- It's worth noting that the Reserve Bank generally cuts interest rates to stimulate the economy which usually coincides with lower property values.
- As a result, while interest rates are lower it is an excellent opportunity to reduce your debt if you have some spare cash available so that when interest rates do rise the increasing cost of owning the property is minimised.



Capital Gains Tax (CGT)

- A capital gain is when the proceeds of sale of the investment property exceeds the cost base (i.e what you purchased it for).
- A capital gain is generally subject to capital gains tax (CGT) at your marginal tax rate (depending on who and what entity owns it).
- A capital loss is when the proceeds of sale of the investment property are less than the cost base.
- A capital loss is carried forward for tax purposes to be offset against any future capital gains.



Quick Facts on Capital Gains

- If the property you sell is your main residence, it is **exempt** from CGT.
- Properties purchased prior to 20 September 1985 *may* be exempt from CGT.
- When you hold an investment property for more than 12 months, there is a 50% general discount on the capital gain (example on next slide).
- If you have capital losses already and looking to offset against any gains, you must apply the losses first, then apply the discount.
- The “6 year-rule” may apply where you can still get a main residence exemption despite renting the property.



Basic CGT Example

Sale Proceeds	\$500,000
Less:	
Agent Fees	(\$15,000)
Cost Base	(\$425,000)
Gross Capital Gain	\$60,000
50% General Discount Applied	(\$30,000)
Net Capital Gain	\$30,000



Tax Tips when investing in property

- Keep all your records! This includes:
 - Offer & Acceptances and Settlement Statements (with stamp duty) for both purchases and sales of property.
 - Receipts for any major structural improvements to the property.
 - Getting a valuation done on the property on when you decide to rent the property out (if you lived in it previously).
 - If using an agent to manage the property (highly recommended), be sure to get a copy of the annual income and expenditure summary.
- Acquire a quantity surveyors report / depreciation schedule on the property
Beware: if claiming capital works deductions (Division 43) as part of the report, when the property is sold this added back onto the cost base.



Tax Tips when investing in property

- If you plan to sell the property, speak with your accountant to plan for the transaction in advance as part of tax planning to ensure you minimise your tax exposure as much as possible.
- If you are undertaking a complex property development (i.e Sub-division or flipping property), be sure to seek out advice and be clear on your intention and strategy. The reason being is there are very different income tax (and GST) implications depending on what your trying to achieve.
- Structure your investments accordingly. There are a range of different types of investment structures that can be tailored to your needs to legally minimise tax and boost your overall wealth.



Any Questions?

