PIPA ADVISER

ISSUE #1

For members of the Property Investment Professionals of Australia

2017 OUTLOOK

PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA

PIPA

PIPA *mission:*

PIPA (Property Investment Professionals of Australia) has been formed by industry practitioners with the objective of representing and raising the professional standards of all operators involved in property investment.

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PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA

2017... what's in store for PIPA

Welcome to the first ever edition of the *PIPA Adviser* – your new bi-monthly member e-magazine. As our member numbers continue to grow strongly, this publication is just one of a number of new initiatives this year as PIPA ramps up our offering to members.

This year is shaping up to be an outstanding, yet challenging, one for the association as we mature as an organisation and start to make in-roads in our representations to government.

Our core focus in 2017 will be to create a strong voice for the economic and social benefits of property investment in Australia, as our lobbying efforts on behalf of property investment professionals and investors in Australia intensifies.

In the face of the continuing national debate about the "worthiness" of negative gearing, capital gains changes, some potentially alarmist polices to "improve" housing affordability and further lending policy changes being mooted by APRA, PIPA will be at the forefront of these discussions to inject some much-needed balance into the debate.

In fact, at our recent board meeting my fellow board members understood the gravity of these important issues to our industry and property investors alike. This is why I am very pleased to announce that PIPA, being the peak industry body for professional practitioners, will establish a new "sister" body for actual property investors called The Property Investors Council of Australia (PICA).

With around two million investors in the Australian property market, the establishment of this council has the power to unite all property investors in our efforts to better educate all on the vast array of positives for the Australian economy and community as well as to ward off any market manipulation or regulation that is purely sought for short-term political gain.

PIPA will fund the establishment of the council, along with creating a fighting fund from donations from all concerned property investment professionals, investors and aligned industry bodies to promote and market the benefits of our sector.

I outline more about PICA in the Industry News section on the following pages.

I'm pleased to report that PIPA is heading into 2017 in a very strong position and I'm excited that we are leading the push to continue to develop the professionalism of our industry as well as leading the campaign against ill-considered policy positions by some political parties.

On behalf of the Board of Directors, I thank you for your continued support both financially through your membership contributions as well as through your belief in the long-term sustainable future of our industry.

BEN KINGSLEY
PIPA CHAIRMAN

PIPA in the news

PIPA is a regular commentator and expert source in property-related stories across the nation. Below are a selection of articles from the past two months.

How to save a deposit for your first home **-** The hardest part of buying your first property is saving the deposit.
http://bit.ly/PIPA-001-5A

Investing in holiday hot spots isn't always a wise idea **-** It is so close to the summer break you can smell the salty air and taste the piña coladas.
http://bit.ly/PIPA-001-5B

2017 predictions on Australian house prices **-** A survey of property analysts shows most are predicting solid growth in the price of houses in 2017.
http://bit.ly/PIPA-001-5C

Australian Financial Review;
Australian Broker.

new members

***PIPA** welcomes our newest members...*

CORPORATE MEMBERS

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- **MATT LEECH**
  Incite Wealth

Where is the NSW market headed in 2017?

NICOLA MCDOUGALL
Editor, PIPA Adviser

It's hard to believe the we're heading into the fifth year of consecutive property price growth in Sydney. A year ago, many property commentators were forecasting a softer market for our nation's most populous city but the latest stats show just how wrong many of them were.

In fact, according to the CoreLogic Hedonic Home Value Index for January 2017, Sydney stood out as recording the highest annual capital gains with dwelling values up 16 per cent over the past 12 months, which was the highest annual rate of growth since the 12-month period ending September 2015.

Since the growth cycle commenced in June 2012, Sydney dwelling values have increased by a cumulative 70.5 per cent, according to the report.

Speaking to the PIPA Adviser, CoreLogic head of research-Australia Cameron Kusher said that the Sydney market was stimulated by low interest rates and strong population growth last year.

"Our view is you'll still see reasonably strong growth again this year. Our thinking is that the rate of growth will slow a bit and that will be mainly due to affordability hurdles," Kusher said.

"The fact that a lot of people have already bought in this cycle, it doesn't make sense to be buying and selling properties every couple of years because of the exit and entry costs.

"The other factor is, we won't probably hear about it, APRA will be doing a lot more work behind the scenes with lenders to try and cool this thing down because Sydney and Melbourne have been running for a long time now and a lot of people simply can't afford it."

He said an interesting element to the Sydney market was the fact that the price disparity between houses and units was greater than in other capital cities.

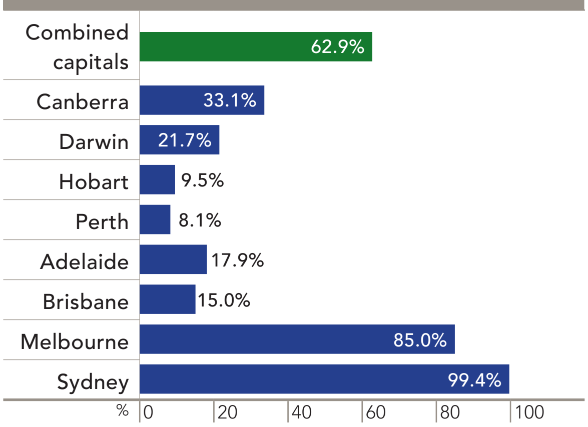
"That largely comes down to the fact, in terms of prices, there's almost a $250,000 price gap between houses and units, whereas the gap in Melbourne and Brisbane is not as large," he said.

"Obviously it's still very expensive to buy a unit, but for a lot of people it's the only way that they can enter into the Sydney market, which is why that unit price is holding up much stronger."

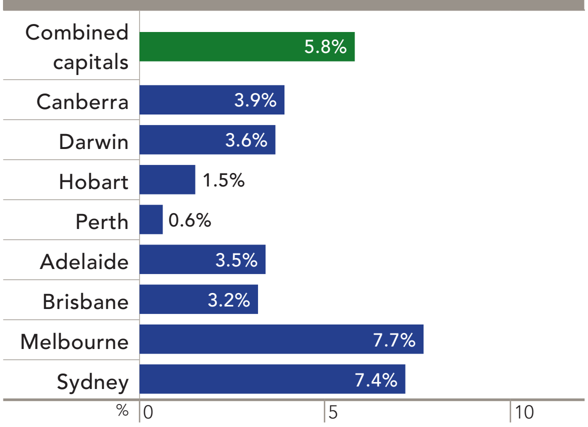
The Sydney market would also likely cool this year due to the supply of new units nearing completion, he said.

And with Gladys Berejiklian

CUMULATIVE CHANGE IN DWELLING VALUES FROM JAN 2009 TO CURRENT (POST GFC GROWTH)



ANNUAL CHANGE IN DWELLING VALUES OVER PAST TEN YEARS



installed as the New South Wales premier, the Real Estate Institute of New South Wales (REINSW) has begun lobbying for taxation reform.

"The NSW Government has seen windfall after windfall in recent years and it is time to give back. We urge Premier Berejiklian to recognise that stamp duty has not been reviewed for 30 years," REINSW president John Cunningham said.

"It's time for a premier to step in and take charge. We believe that Gladys Berejiklian has the potential to be the premier who leads NSW into a future where property consumers aren't being ripped off by outdated stamp duty brackets.

"We call on Premier Berejiklian, as leader of the NSW Government, to reduce stamp duty for first homebuyers by 50 per cent for the purchase of a residential property less than $1 million."

Cunningham said allowing homebuyers to pay off stamp duty over time would assist housing affordability and proposed a one-off 50 per cent stamp duty concession for over 65s, up to $1 million, to increase supply.

"To further support supply and affordability we call on the new premier to make amendments to planning laws, to bring back a SEPP for dual occupancy. This will provide the middle-ring suburbs of Sydney with part of the solution to this major issue," he said.

> ***Allowing homebuyers to pay off stamp duty over time would assist housing affordability.***

Sydney wasn't the other strong performer in 2016, with many of its regions recording strong growth as well.

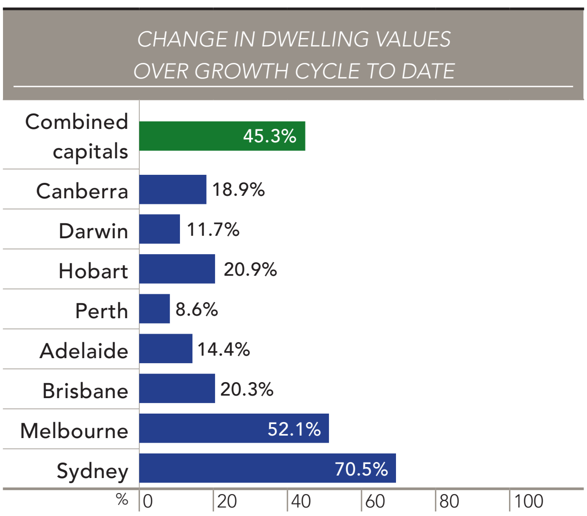
According to CoreLogic's Regional Market Update for the September quarter 2016, Illawarra house values were up 14.3 per cent and unit values rose by 11.5 per cent over the year.

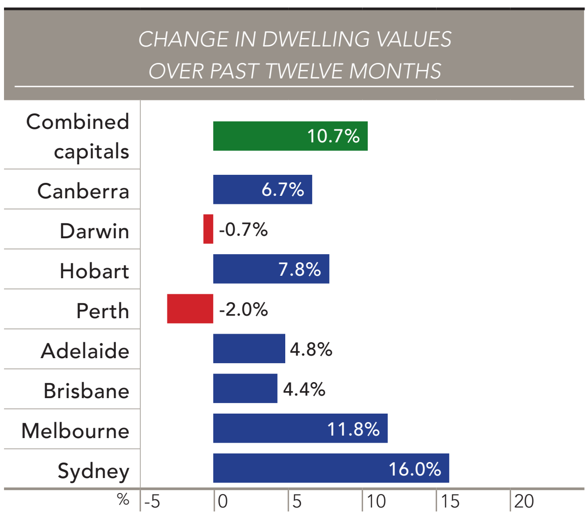
In the Newcastle and Lake Macquarie, and the Richmond-Tweed regions, home values rose by less, however each property type saw gains of more than six per cent. When looking at transaction activity, the Richmond-Tweed region was the only region reporting an increase over the year (three per cent), while sales activity fell in the other two regions.

"As people feel they can't afford to buy in Sydney, they start looking to these areas," Kusher said.

"You live in somewhere like Wollongong, it's going to take you just as long on the train to get into the city as living out in the western suburbs. People are also looking at that from a lifestyle perspective – they can live by the beach or they can live out in the western suburbs.

"More and more people are saying 'living near the beach is probably a little bit more desirable' and choosing that and that's why you're getting such strong growth in that market."





BEN KINGSLEY
Chairman, PIPA

Property investment benefits all Australians

Over recent years, all property investment professionals have no doubt watched with a growing sense of alarm as our sector was repeatedly targeted by politicians and the wider community as the 'root cause' of rising property prices.

In the lead up to last year's Federal Election, negative gearing yet again became a political football as policymakers tried to "understand" the continued strength of the Sydney market and to a lesser extent Melbourne.

With the election now behind us, and with the Federal Government committed to leaving negative gearing alone for the time being, we had hoped there would be some respite from the attacks on our profession as well as on property investors.

Unfortunately, that state of play has not come to pass, and yet again property investors are being portrayed by the media as some type of "evildoers" who are solely responsible for the recent price surges in our two most populous capital cities and the decline of housing affordability generally.

Of course, anyone who actually understands the fundamentals and mechanisms of property markets knows that there a number of factors behind the recent strong price movements, but that is not the topic for today.

As I mentioned in my chairman's column, this year PIPA is going on the front foot to protect our profession and to promote the benefits of property investment to all Australians.

THE NUMBERS

At more than 35 per cent of the broader property market, the property investment industry represents not only a hefty chunk of the larger real estate market, but also a significant component of the Australian economy.

From the obvious direct industries such as construction, real estate sales and financing, through to retail, infrastructure and utilities, myriad of sub-industries form the greater property investment industry in Australia, all contributing considerably to economic growth and employment.

In addition to being an essential cog in the wheel of domestic economic growth, the property investment industry also provides a fundamental service – that is, the

> ***PIPA is going on the front foot to protect our profession.***

provision of shelter for approximately one in four Australian households. This represents an enormous cost saving for the Australian government and a service that the government would be at pains to provide in the absence of investors.

Property investors, on their paths towards a self-funded retirement, also actively reduce the burden on government of pension and welfare payments – particularly important in light of Australia's aging population.

In fact, property investment is an industry that underpins Australia in three key facets: employment and economic growth, the provision of shelter, and the creation of wealth.

MUM AND DAD INVESTORS STILL MOST COMMON

Over the greater part of the past century, property has firmly cemented itself as an important component of the Australian identity. Shelter, security and the opportunity to build wealth have all made real estate a firm part of the Australian ethos.

The dream of owning one's home has become not just an emotive ideal; it has proven an astute financial decision, demonstrating over the years that it not only provides shelter, but also security and a significant store of wealth.

According to CoreLogic's Profile of the Australian Residential Property Investor (June 2016) there are 2.03 million individuals who indicated they owned a residential rental property, implying a very low concentration of investment of approximately 1.28 investment properties per investor, based on the most recent taxation data.

While residential property investors wrote $3.719 billion off their taxable income in the 13/14 financial year, CoreLogic estimated that investors paid Capital Gains Tax on $51.2 billion of profits made from dwelling resales over the 2015 calendar year and contributed to the $45 billion in property-related tax revenue collected by the state and local governments.

The report also said that the largest majority of loss-making rental properties are owned by individuals that fall within younger aged cohorts. Some 78.4 per cent of property investors that declared a net rental loss were aged less than 40 compared with 59.8 per cent of individuals aged 40 to 64 who declared a net rental loss. Only 22.5 per cent of those aged 65 years or older claimed a net rental loss.

NUMBER OF PEOPLE EMPLOYED IN HOUSING SECTOR

INDUSTRY	NUMBER OF EMPLOYEES	ANNUAL REVENUE (2016)
House construction	67,000	$41 billion
Multi-Unit apartment and townhouse construction	25,000	$19 billion
Land development and subdivision	22,500	$12 billion
Site preparation services	58,000	$25 billion
Plastering and ceiling services	33,600	$6 billion
Carpentry services	92,000	$11 billion
Bricklaying services	30,000	$3 billion
Plumbing services	48,000	$13 billion
Concreting services	27,600	$8 billion
Electrical services	80,000	$19 billion
Roofing services	13,400	$3 billion
Tiling and carpeting services	26,000	$4 billion
Painting and decorating services	47,000	$6 billion
Landscaping services	49, 000	$5 billion
Mortgage brokers	17,700	$2 billion
Financial planning and investment advice	26,000	$5 billion
Legal services	107,000	$23 billion
Accounting services	115,000	$20 billion
Surveying and mapping services	14,800	$4 billion
Real estate services	110,000	$14 billion
Residential property operators	73,700	$44 billion
Architecture services	35,000	$7 billion
Building pest control services	10,400	$1 billion
Sewerage and drainage services	11,600	$9 billion
Furniture retailing	26,000	$7 billion
Hardware and building supplies retailing	72,000	$22 billion

Source: IBISWorld

THE ECONOMIC BENEFITS

The Australian property industry also represents a significant component of the Australian economy. Residential housing stock alone is estimated to be worth $6.6 trillion. This is more than three times Australia's total share market capitalisation of $1.7 trillion and our total superannuation pool of $2.1 trillion (CoreLogic end of September 2016).

As such a substantial part of the economy, the residential property cycle plays a significant role in the country's overall economic performance, as we've seen by the recent strong stamp duty receipts in New South Wales which have helped to fund that State's robust infrastructure program.

Typically, property market upswings can also be a precursor to periods of economic growth and property investors provide a principal source of momentum in the market, helping to underpin broader economic activity.

New housing construction is a particularly strong contributor to economic growth, with approximately 230,000 new dwellings added to the national property market in the year to September 2016, according to the Housing Industry Association. But the housing market has strong spending multipliers through a range of industries, including retail and financial services as well as the government, through taxes and levies such as stamp duty – all driving a far-reaching influence on economic growth.

SIGNIFICANT EMPLOYER

In addition to economic growth, property-related industries provide employment for a noteworthy cross-section of Australians. The Australian Bureau of Statistics Labour Force Quarterly Report (released in November 2016) indicated that about 1.06 million people were employed in construction, while about 217,000 were employed in Rental, Hiring and Real Estate Services.

New housing construction is one of the most significant components of the property investment industry and a significant generator of employment and economic growth. Moreover, building and construction is expected to become even more imperative to economic growth, as the economy transitions away from its reliance on mining and resources.

> ***Investors paid Capital Gains Tax on $51.2 billion of profits made in 2015.***

According to Master Builders Australia, the building and construction industry accounts for close to eight per cent of gross domestic product and around nine per cent of employment in Australia. It makes an essential contribution to the generation of wealth and welfare of the community. At the same time, the wellbeing of the building and construction industry is closely linked to the prosperity of the domestic economy.

Master Builders also says that the cumulative building and construction task over the next decade will require work done to the value of $2.8 trillion and for the number of people employed in the industry to rise by 300,000 to 1.3 million.

Building and construction is also one of the nation's most important small business sectors, with 95 per cent of all businesses in the industry employing fewer than five people. In broad terms, small business accounts for around half of national employment and over one third of domestic product.

The industry is also the major provider of apprenticeships to young Australians with tens of thousands of apprentices employed in the sector every year.

THE BOTTOM LINE

All of these facts and figures are why PIPA will this year become the champion of the property investment industry and investors alike. Our sector is just too valuable to the health of the Australian economy and the wealth of everyday Australians to not take a stand against harmful and uneducated policies, which could devalue our investments and future jobs and economic growth.

More information will be released soon regarding our next steps, and the creation of a fighting fund and PICA, so I hope that in the meantime you continue to represent the industry with the ethics and professionalism that is the hallmark of PIPA and its membership.

No property's too old to depreciate

BRADLEY BEER
CEO, BMT Tax Depreciation

One common misconception investors have when purchasing an older property is they think they won't benefit from depreciation.

While there are some restrictions outlined in tax legislation which the Australian Taxation Office (ATO) will enforce, it's important for property professionals to inform their clients not to dismiss obtaining a depreciation schedule simply because the property being purchased was constructed some time ago.

Below are three reasons why depreciation is just as relevant for owners of an older property as it is for those who purchase brand new buildings to help property professionals to encourage their clients to seek expert advice.

1. THERE'S TWO ELEMENTS TO A DEPRECIATION CLAIM

One reason investors think they're ineligible to claim depreciation for an older property is because the rules state that capital works deductions can only be claimed on residential buildings in which construction commenced after the 15th of September 1987. However, capital works deductions (which can be claimed for structural and fixed items) form only one component of a depreciation claim.

The second depreciable element of an investment property is the mechanical or removable fixtures and fittings (also known as plant and equipment assets). The construction commencement date has no impact on whether investors can claim depreciation for plant and equipment. For these assets, the ATO provides an individual effective life over which deductions can be claimed.

> *At the end of the day, cash flow is vital for investors.*

2. OLDER PROPERTIES HAVE OFTEN BEEN RENOVATED

It's rare for agents to sell an investment property constructed prior to 1987 which hasn't undergone some form of renovation since its original construction.

Any work completed within the legislated dates will entitle an investor to claim capital works deductions, even if the work was completed by a previous owner.

Often renovations are not obvious, for example new plumbing. If an investor wants peace of mind, a quantity surveyor can assess the situation and provide a depreciation estimate before they order a depreciation schedule.

3. OWNERS OF PROPERTIES BUILT BEFORE 1987 CLAIM $4,899 ON AVERAGE IN THE FIRST YEAR

Perhaps the easiest way for property professionals to encourage their clients to organise a depreciation schedule is pointing out the financial benefits associated.

Data from our schedules prepared during the 2015/2016 financial year suggests that owners of properties constructed prior to 1987 claimed an average of $4,899 in depreciation deductions in the first financial year alone.

At the end of the day, cash flow is vital for investors. By encouraging property investors to request a depreciation schedule, this could mean more room in their budget to enable them to afford a property and for you to secure a potential sale.

member profile

***Glen Biggins** is the director and finance strategist at Focus Property Wealth in WA, but he started his career as an engineer.*

CAN YOU PLEASE TELL US MORE ABOUT YOUR BUSINESS?

Focus Property Wealth is a finance and property advice company which operates to assist clients in obtaining suitable finance, assist in developing a plan and helping clients to execute that plan.

Unlike many industry professionals we don't sell property and this is our point of difference.

Focus Property Wealth clients consist of the broad spectrum from aspiring first homeowners to experienced property investors.

They're looking for a trusted advisor to guide them and assist in all stages of the wealth creation process through property ownership.

HOW LONG HAVE YOU BEEN A FINANCIAL ADVISER/ MORTGAGE BROKER?

I've been a mortgage broker for around nine years now, first starting in 2008 after leaving a longstanding engineering career to follow a passion for wealth creation through property ownership

HOW LONG HAVE YOU BEEN A QPIA?

Seven years. My QPIA status was attained in 2010.

HOW DID YOU FIND OUT ABOUT THE QPIA?

I joined PIPA in 2008 after searching for organisations that assisted property investors to obtain the highest level of professional advice.

As a member of PIPA, I was made aware of the QPIA course and so immediately enrolled, completing all modules in around a year and a half.

WHAT WERE YOUR MAIN REASONS FOR BECOMING A QPIA?

I initially sought to complete the QPIA accreditation for my personal development as a part of my own continuous improvement.

As a professional adviser, the qualification enables me to take our clients through a clear path to ascertain their best options and plans.

WHAT WERE THE MAIN CHALLENGES OF BECOMING A PROPERTY INVESTMENT ADVISER?

Good advice is hard to find in regards to property, particularly advice received from a business that's also selling some form of property.

We seek to offer the best advice and assistance possible and believe this can only be obtained if we work only for our clients.

The key challenge is ensuring our clients are offered the best advice possible – the QPIA qualification enables us to follow a process to ensure this is the case.

> Trust is highly sought-after in this industry.

DO YOU CHARGE FOR YOUR PROPERTY INVESTMENT ADVISORY WORK?

No, not currently, as we offer our assistance as a part of our initial and ongoing property finance services.

HOW DOES THE QPIA SUPPORT YOUR FINANCIAL ADVISING/MORTGAGE BROKING BUSINESS AND ITS GROWTH?

We look to the longer timeframe and use our property investment advisor knowledge and qualification to ensure our clients ongoing needs are met.

We're the first contact called when our current clients have a question about their finance and property.

We encourage this regular contact, questions and scenarios ideas.

HOW DOES THE QPIA QUALIFICATION HELP YOU TO ATTRACT NEW CLIENTS OR DEEPEN EXISTING CLIENT RELATIONSHIPS?

Trust is highly sought-after in this industry and the QPIA qualification enables us to better service our clients.

Through meeting those requirements, we're then able to develop a deeper level of trust.

We find our clients are strong referral sources and keen to encourage others to contact us to assist in answering their property and finance questions.

WOULD YOU RECOMMEND OTHER FINANCIAL ADVISERS/MORTGAGE BROKERS TO BECOME QPIAS? WHY?

Absolutely, it will deepen their knowledge and enable them to offer great advice.

We have new clients seeking us through the PIPA website regularly.

WHAT'S NEXT FOR YOUR BUSINESS IN THE NEXT 12 MONTHS AND BEYOND?

We're a small business looking to increase our client base and service offering.

Currently our primary service is helping clients obtain finance and reduce finance costs on existing loans through correct structuring and negotiation with the banks.

We'll be looking to offer written property investment plans and provide our clients with increased support in property ownership, research and acquisition.

In 2017, our marketplace will offer some challenges and many opportunities.

INTERESTED IN BEING A PIPA MEMBER PROFILE IN THE PIPA ADVISER? EMAIL US...

corporateaffairs@pipa.asn.au

What to expect from the market this year

TIM LAWLESS
Head of Research, CoreLogic

As we head into 2017, CoreLogic's head of research Tim Lawless shares his insights into where this year's property market is headed.

Where do the opportunities lie for property investors in 2017, would you say?

There are likely to be buying opportunities in any market, however the most obvious capital cities appear to be Canberra, Hobart, Brisbane and Adelaide where the yield profile remains reasonably healthy and the growth cycle isn't as advanced as Sydney or Melbourne.

Outside of the capitals, coastal and lifestyle markets are also showing some acceleration in market activity and dwelling values are pushing higher after slumping between 2008 and 2014.

What metrics should we be tracking in the coming year?

Supply is always important, particularly at the moment as we're seeing an unprecedented amount of high rise unit construction.

Detached housing supply generally remains moderate, though, indicating a lower risk profile in the detached sector.

While many investors tend to pay less attention to yields, the yield profile of a housing market is also important as it provides some guidance around the balance between rents and values.

Low yields may indicate that dwellings are overvalued relative to rents. Other market measurements like clearance rates, average selling time, rates of vendor discounting, vacancy rates and listing numbers are also very important.

Outside of the housing market statistics, keeping an eye on economic and demographic indicators, such as labour markets, interest rates, inflation and population growth, are also critical for understanding the direction of housing market conditions.

Are there any stats/results that we should watch out for that could mean alarm bells?

High supply levels in the inner-city markets of some cities stand out to me.

We're seeing an unprecedented number of high rise apartments under construction, with a large number of these developments being targeted specifically towards investors and overseas buyers.

Unit projects that offer up some differentiation and a quality site are likely to provide some protection from a downturn.

Another alarm bell can be seen in the record low yields being recorded in Sydney and Melbourne. The average gross yield on a house in both cities is now 2.8 per cent and likely to compress further as values continue to outpace rents.

Affordability is another concerning feature of the Sydney and, to a lesser extent, Melbourne housing market. Despite serviceability measures remaining healthy due to the lowest mortgage rate since the 1960s, the multiple of household income to housing prices has never been this high in Sydney and Melbourne.

Which locations – and which property types – do you think demand further investigation going in to the new year?

Detached housing located close to the CBDs of the major capitals and that provide efficient access to the CBD via major transport spines look like the most compelling property types to me.

How do you think 2017 will compare to 2016, in terms of general market conditions (Australia-wide) and more specifically/local to you?

We're likely to see a further moderation in headline growth rates during 2017 as affordability constraints, low yields and more conservative lending impact on buyer demand, particularly in Sydney and Melbourne.

I'd be avoiding investor-oriented unit stock.

Cities such as Canberra, Hobart, Brisbane and Adelaide may see some acceleration as investor demand moves away from Sydney and Melbourne in search of healthier yields and more capital gain upside.

Do you think anywhere could be set for a crash or significant slowdown?

Perth and Darwin are already well into their down phase with local values down nearly 10 per cent since peaking in 2014. These markets may start to level out in late 2016 or early 2017.

We aren't expecting any markets to crash, but it stands to reason that after almost five years of strong growth, the Sydney and Melbourne housing markets could see some downwards pressure on prices.

What's your advice for anyone starting out on their property investing journey in 2017?

Do your research, don't rush the decision, and buy based on the numbers rather than emotion.

What areas/regions/strategies/property types do you think people would be better staying away from in 2017?

Sydney and Melbourne are likely to move through the peak of their cycle soon, and with the yield profile being so low I would be more wary of these markets.

Perth and Darwin are likely to show some further downwards pressure, however these are well and truly buyers markets with plenty of stock to choose from and opportunities for negotiation.

Unit supply is concerning across the inner-city markets – I'd be avoiding investor-oriented unit stock in markets where supply levels and the supply pipeline is substantial.

What are some of the signs that could potentially signal negative issues in 2017?

Issues around oversupplied unit markets are well and truly on the risk radar at the moment. However, it's important to note that even though inner-city apartment supply is looking high, particularly in Melbourne and Brisbane, well located and differentiated projects are likely to offer up some level of safety in these areas.

Projects that are very focussed on investor markets and overseas buyer demand are likely to show a higher risk profile.

Affordability is becoming stretched in some markets where values have risen substantially. Markets like Sydney, where the dwelling prices relative to household incomes are more than eight times higher, are likely to see a natural reduction in buyer demand as more prospective buyers are simply unable to financially participate in the market.

Regions with low rental yields are also showing some potential for future under performance. While yields are often overlooked in preference for capital gain prospects, a low yield is also a signal that dwelling values are out of balance with rental prices.

Another broad factor is that the housing market cycle is well advanced. It's rare for a growth cycle to run for longer than four years, and this current cycle is now approaching five years of strong capital gains, which are largely being influenced by conditions in Sydney and Melbourne.

Finally, interest rates may move higher sooner than expected on the back of the election of Donald Trump.

We're expecting US inflation is likely to push higher on the back of significant personal and company tax cuts, a large uplift in infrastructure and defence spending and higher wages growth. This is likely to cause US interest rates to rise and consequently place some downwards pressure on the Australian dollar.

What's your number one tip for property investors in 2017?

Some of the best investment prospects are likely to be outside of Sydney and Melbourne.

Look towards areas that are earlier in the growth cycle, where yields are healthier and economic conditions are improving.

CoreLogic®

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