PIPA ADVISER

ISSUE #4

For members of the Property Investment Professionals of Australia

NAVIGATING TODAY'S LENDING LANDSCAPE

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.

The *PIPA ADVISER* is a bi-monthly title published six times a year by PIPA (Property Investment Professionals of Australia) www.pipa.asn.au

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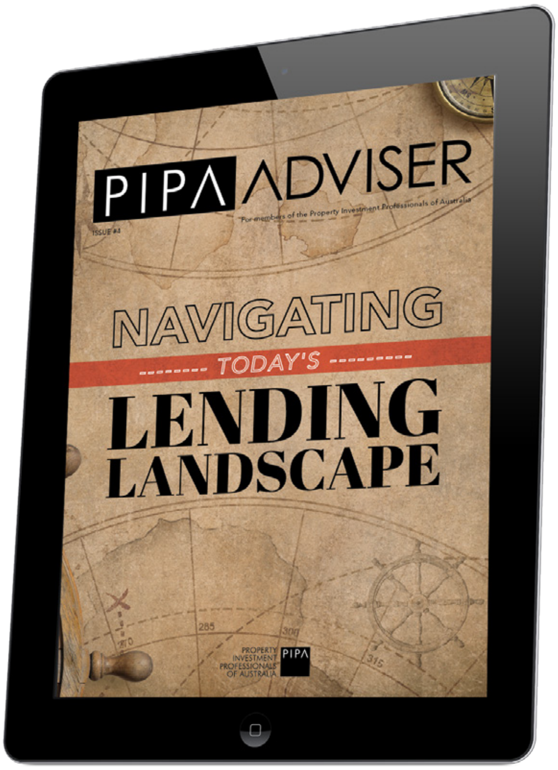


Spring selling season is in the air

Welcome to the fourth edition of the *PIPA Adviser* – your bi-monthly member e-magazine. It's hard to believe that by the time this edition is distributed it will be the spring selling season again.

This year has flown by with the market continuing to post solid results in many areas. With Sydney's market continuing its slow down, other capital cities such as Hobart and Canberra are strengthening with price rises being recorded.

However, the continual changing of the lending goal-posts remains an issue. Increases to interest rates as well as restrictions on loan-to-value ratios for investors is making it difficult for many people to secure finance.

While the level of investors in Sydney and parts of Melbourne over recent years was unsustainable, it is economically unwise to destroy normal investor market activity.

Without the historical 30 per cent of investors active in the market generally, the wider economic benefits which flow from their activity will disappear and that will be bad news for the economy overall.

I was proud to represent PIPA, our members, and property investment more generally at the recent 2017 Australia Affordable Housing Conference in Sydney.

Over the two-day event, I gave a keynote speech on the economic benefits of property investment as well as took part in a panel discussion on negative gearing and Capital Gains Tax.

The conference was a chance for key policymakers to discuss ways to address housing affordability issues around the nation.

Many participants indicated that they hadn't thought of considering the important role that private investors currently do play and could further play in housing and rental affordability, which was one of the many benefits of PIPA being there.

The platform also allowed PIPA to significantly increase its brand profile with government and private enterprise as well as to represent the interests of property investors.

The formation of the Property Investors Council of Australia (PICA) is continuing with its constitution now finalised as well as its founding board members. It is hoped that PICA will launch in the coming months.

PIPA is again an Association Partner of the Sydney Property Buyer Expo, which is being held in October.

The next free PIPA Webinar will also be held in November so keep an eye out for information about it in coming weeks.

BEN KINGSLEY
PIPA CHAIRMAN

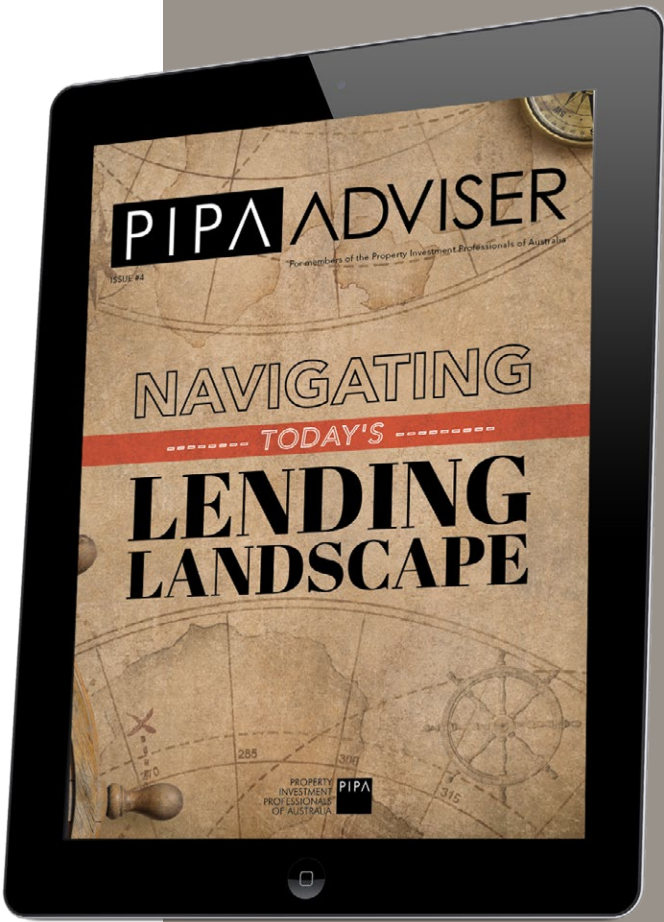
PIPA *media*kit

The Property Investment Professionals of Australia (PIPA) is the peak national property investment industry association. Our members subscribe to a Code of Conduct which considers all consumers and commits to disclosure and a high standard of best practice.

The ***PIPA Adviser*** is a bi-monthly industry e-magazine that features the latest industry news, research and state market analysis as well as PIPA happenings including upcoming events and media mentions.

Delivered to hundreds of PIPA members every two months, the ***PIPA Adviser*** has a potential reach of thousands of property investment professionals across Australia.

As the only e-magazine dedicated to the property investment advice sector, the ***PIPA Adviser*** offers advertisers the unique opportunity to reach a dedicated and sophisticated audience of property investment professionals.



Membership of PIPA is open to all professionals working within the field of property investment advice and can include:

- Qualified Property Investment Advisers (QPIAs)
- Mortgage brokers
- Tax accountants
- Buyers' agents
- Financial planners
- Conveyancers, solicitors and lawyers
- Education and research providers
- Property managers
- Building and/or pest inspectors
- Licensed builders
- Developers
- Quantity surveyors
- Real estate sales agents
- Licensed valuers.

ADVERTISING DEADLINES AND PUBLICATION DATES:

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NICOLA MCDOUGALL
Editor, PIPA Adviser

Affordability driving demand in SA

South Australia didn't get much national property love over the past few years but its affordability may just change that.

With Sydney and Melbourne prices pushing the finance envelope, South Australia and Adelaide in particular are on the radar of investors.

CoreLogic head of research Cameron Kusher says prices in Adelaide are strengthening – albeit rather slowly.

"Value growth in Adelaide is pretty moderate at the moment closely aligned with income growth and inflation. Over the 12 months to July, dwelling values in Adelaide increased by 2.1 per cent with house values 2.2 per cent higher and unit values just 0.6 per cent higher," he says.

Some of best performing areas in Adelaide and South Australia over the past year according to CoreLogic include:

- Prospect (+9.3 per cent)
- West Torrens (+5.7 per cent)
- Adelaide (+5.6 per cent)
- Holdfast Bay (+5.0 per cent)
- Gawler and Norwood Payneham St Peters (both +4.6 per cent)
- Franklin Harbour (+5.2 per cent)
- Mount Gambier (+4.7 per cent)
- Clare and Gilbert Valleys (+4.5 per cent)
- Victor Harbor (+4.2 per cent).

While the Sydney market appears to be cooling down, South Australia hasn't yet experienced the full attention of buyers searching for a better deal.

Kusher says investor activity was remaining sound with some small green shoots of increased attention.

"Agents are certainly reporting more interstate buyer demand, especially considering that South Australia has a significant affordability advantage relative to New South Wales and Victoria," Kusher says

For the remainder of 2017, Kusher anticipates some growth for the Adelaide and South Australia markets, but it probably won't win any capital growth prizes.

"We expect more of the same, slow growth in most areas. The reason being that the overall

economic performance of South Australia remains weak as is population growth," he says.

According to the Real Estate Institute of South Australia (REISA), sales have significantly rebounded across metropolitan Adelaide and the whole of South Australia in the second quarter of 2017.

Following the release of the Valuer-General's median house price data for the 2017 June quarter, REISA CEO Greg Troughton say that sales were up across the entire State with metropolitan Adelaide recording a solid 6.9 per cent increase in sales over the past three months.

"It is fantastic that sales have soared in the June quarter and this just goes to show that the underlying strength of the real estate market continues to be sustainable and sound," Troughton says.

"While the median price dipped slightly from last quarter's record of $460,000, it still remains at a historically high level of $452,000, which is 1.12 per cent – up from the same quarter last year."

According to the REISA, in the June quarter, 4,458 houses settled across the Adelaide metropolitan area, which was significantly up from the previous quarter and almost exactly the same as the same quarter last year.

AUCTION CLEARANCE RATES – JUNE 2017

WEEK ENDING	CLEARANCE RATES
2 April	75%
9 April	69%
16 April	58%
23 April	62%
30 April	69%
7 May	65%
14 May	68%
21 May	68%
28 May	60%
4 June	60%
11 June	80%
18 June	70%
25 June	66%

Source: REISA

MEDIAN HOUSE PRICES – JUNE QUARTER 2017 - SA'S MAIN REGIONAL CENTRES

		2Q 2016		1Q 2017		2Q 2017			12
INDEX	CATEGORY	SALES	MEDIAN	SALES	MEDIAN	SALES	MEDIAN	QUARTER % CHANGE	MONTH % CHANGE
MAJOR TOWNS	Houses	503	262,500	517	266,500	466	264,500	-0.75%	0.76%
COMPONENT TOWNS									
Millicent	Houses	10	126,250	19	141,000	10	175,000	24.11%	38.61%
Mount Gambier	Houses	130	250,000	107	256,000	97	264,000	3.13%	5.60%
Murray Bridge	Houses	78	240,000	79	240,000	65	241,500	0.63%	0.63%
Port Augusta	Houses	28	185,000	30	202,500	31	225,000	11.11%	21.62%
Port Lincoln	Houses	47	300,000	40	340,000	46	300,000	-11.76%	0.00%
Port Pirie	Houses	31	188,000	49	185,000	40	190,000	2.70%	1.06%
Victor Harbor	Houses	109	356,500	114	376,500	97	350,000	-7.04%	-1.82%
Whyalla	Houses	18	259,000	20	195,000	15	200,000	2.56%	-22.78%
OTHER TOWNS									
Barmera	Houses	6	202,000	5	187,000	7	142,000	-24.06%	-29.70%
Berri	Houses	11	189,800	9	199,950	11	162,000	-18.98%	-14.65%
Naracoorte	Houses	27	229,000	19	226,000	25	218,000	-3.54%	-4.80%
Renmark	Houses	15	175,000	26	189,000	13	267,500	41.53%	52.86%

Source: REISA. *Please note that low turnover towns are more vulnerable to statistical variation

Sales across the entire State were up from the previous quarter and only slightly down for the same quarter last year.

"What is so fantastic about these sales figures is that they are even up from the last quarter of 2016 – traditionally the quarter which shows the highest volume of sales each year. This is great news for first home buyers who wish to enter the market or those wishing to invest in a rental property" Troughton says.

Suburbs which have seen the largest growth over a 12 month period were Gulfview Heights, Kensington Gardens and Sellicks Beach. Other big movers included Clarence Park, Glenunga and Daw Park.

"The top performers in sales this quarter illustrate the two key fundamentals of a purchaser's

SALES STATISTICS 2ND QUARTER 2017 - ADELAIDE METRO

		2Q 2016		1Q 2017		2Q 2017			12
INDEX	CATEGORY	SALES	MEDIAN	SALES	MEDIAN	SALES	MEDIAN	QUARTER % CHANGE	MONTH % CHANGE
South Australia	Houses	5,976	405,000	5,696	413,000	5,889	416,000	0.73%	2.72%
Metro Adelaide	Houses	4,470	447,000	4,169	460,000	4,458	452,000	-1.74%	1.12%
Central Metro	Houses	2,171	515,000	1,967	537,250	2,227	530,000	-1.35%	2.91%
Inner Metro	Houses	409	785,000	383	800,000	354	783,500	-2.06%	-0.19%
Metro Adelaide	Home Units	1,652	348,000	1,090	340,000	1,354	356,750	4.93%	2.51%

Source: REISA

decision – affordability and location," Troughton says.

"Affordability is the principal driver of a purchaser's motivation to buy a property and the perennial top three in sales – Morphett Vale, Aldinga Beach and Paralowie – illustrate the consistency among purchasers in selecting suburbs that are affordable yet still have everything a purchaser could want. It is no surprise that they are always in the top echelon of sales.

"There is always wide fluctuation in the top performers in growth but the trend is always the same – with the beach, lifestyle and terrific infrastructure always key features among the suburbs that make it to the top of this list."

More broadly, the June quarter statistics showed that South Australia was 0.73 per cent up from the previous quarter and up 2.72 per cent from the same quarter last year.

The unit and apartment market showed a 5.82 per cent increase in the median price compared to the previous quarter and an increase of 3.45 per cent from the same quarter last year. Sales were also up 24.1 per cent from the previous quarter.

"These are absolutely brilliant results and show that the unit and apartment market in Adelaide is on a roll. These figures are nothing short of spectacular and it will be interesting to see if the trend continues throughout the rest of the year," Troughton says.

TOP 10 RESIDENTIAL AUCTION SALES

ADDRESS	AGENT	PRICE
1 Whistler Av Unley Park	Phil Harris / Suellen Salt Harris Real Estate	$1,905,000
3 Godfrey Tce Leabrook	Tim Thredgold / Megan Thredgold Toop&Toop Real Estate	$1,600,000
31 River St St Peters	Kosta Zaharogiannis / Eric Jem Belle Property Adelaide City	$1,600,000
2 Jenkins Av Myrtle Bank	Peter McMillan / Eloise McMillan Toop&Toop Real Estate	$1,540,000
115 Ashbrook Av Trinity Gardens	Steve Alexander Klemich Real Estate	$1,470,000
8 Penarth Av Beaumont	Alexi Broikos / Victor Velgush Refined Real Estate	$1,460,000
6 Garnet St Gilberton	Kris Casey / Alyssa Denicola Harris Real Estate	$1,450,000
210 Esplanade Aldinga Beach	Holly Freeland Harcourts Wine	$1,450,000
76a Seaview Rd West Beach	Frank Azzollini L J Hooker West Lakes	$1,410,000
7 Mackinnon Pde North Adelaide	Andrew Fox Fox North Adelaide	$1,370,000

Source: REISA

MEDIAN HOUSE PRICES – JUNE QUARTER 2017

SUBURB	SALES JUN16	MEDIAN JUN16	SALES JUN17	MEDIAN JUN17	MEDIAN CHANGE %
Morphett Vale	102	299,000	102	312,500	4.52%
Aldinga Beach	57	336,000	66	358,500	6.70%
Paralowie	49	285,000	61	312,750	9.74%
Mawson Lakes	56	480,000	56	454,500	-5.31%
Hallett Cove	56	406,000	48	490,000	20.69%
Woodcroft	47	369,000	48	425,000	15.18%
Prospect	38	640,000	44	759,000	18.59%
Happy Valley	41	381,500	44	396,000	3.80%
Flagstaff Hill	43	467,250	42	505,000	8.08%
Salisbury East	32	295,500	42	310,000	4.91%
Adelaide Metro	1,652	348,000	1,090	340,000	1,354

Source: REISA. Top 10 growth Suburbs with 10 or more sales in current quarter

PIPA

*industry*news

BEN KINGSLEY
Chairman, PIPA

The impact of new super rules on SMSF property investors

In November 2016, legislation was passed that will reform Australia's superannuation sector from 1 July this year.

According to the Federal Treasury, the Superannuation (Objective) Bill 2016 sets out a clear objective for superannuation "to provide income in retirement to substitute or supplement the age pension".

Some of the measures reduce previous concessions for super account holders with high balances, while others are designed to assist low income earners, the partially self-employed and retirees.

In this article, I will discuss how the new superannuation rules impact property investment, specifically as well as what the changes mean for self-managed superannuation funds (SMSFs). I'll also discuss why property remains a solid investment class and the importance of qualified property investment advice.

Changes to transfer balance and contributions caps

From 1 July 2017, the caps for transfer balances and pre- and post-tax contributions will change. According to the Federal Treasury, the changes include:
There will be a $1.6 million transfer balance cap on the total amount of accumulated superannuation an individual can transfer into the tax–free retirement phase. Subsequent earnings on balances in the retirement phase will not be capped or restricted.

- Savings beyond this can remain in an accumulation account (where earnings are taxed at 15 per cent) or outside the superannuation system.
- Transitional arrangements will apply. People already retired with balances below $1.7 million on 30 June 2017 will have six months from 1 July 2017 to bring their retirement phase balances under $1.6 million.
- The threshold at which high income earners pay additional contributions tax (Division 293) will be lowered from $300,000 to $250,000.
- The annual cap on concessional

(before–tax) superannuation contributions will be lowered to $25,000 (currently $30,000 for those aged under 49 at the end of the previous financial year and $35,000 otherwise).

- The government will lower the annual non–concessional contributions cap to $100,000 and will introduce a new constraint such that individuals with a balance of $1.6 million or more will no longer be eligible to make non–concessional contributions. As is currently the case, individuals under age 65 will be eligible to bring forward up to three years of non–concessional contributions.

WHAT IT MEANS FOR SMSF PROPERTY INVESTORS

Investing in property via a SMSF remains an attractive proposition for many Australians.

Not only does it allow more people to buy investment properties to help improve their financial futures, it also still provides significant tax advantages particularly around the payment of Capital Gains Tax (CGT), especially once the SMSF account holders have reached pension stage – even after the new rules come into force.

The demand for property from SMSFs continues to be strong with research showing that as many as two in five SMSFs hold residential or commercial property. In fact, those SMSFs with residential property have increased to 22 per cent from 19 per cent over the past year, while direct commercial has risen to 20 per cent from 18 per cent, according to research by the FSC and UBS Asset Management.

While the full impact of the $1.6 million super ceiling may still not be widely understood, it is perhaps causing the most concern amongst SMSF account holders.

It's important to understand that there is no limit to how much money people can have in their super accounts, but the excess above $1.6 million per SMSF member needs to stay in the accumulation phase, which does attract a 15 per cent tax rate. For example, if an SMSF has two members who are both in retirement and the fund balance is $3.2 million (or $1.6 million each) then that is fine. However, if the two members have differing

> ***Investing in property via a SMSF remains an attractive proposition for many Australians.***

IMPACT OF SUPERANNUATION REFORMS

MEASURE	WHO WILL BE AFFECTED?	HOW MANY ARE EXPECTED TO BE AFFECTED?
Introducing a $1.6 million superannuation transfer balance cap	Individuals with a superannuation balance of more than $1.6 million	Less than 1 per cent of fund members
Lowering the concessional contributions cap	Individuals who make concessional contributions of more than $25,000 per year	Around 3.5 per cent of fund members
Reducing the high income contributions tax threshold	Individuals who have income (including superannuation contributions) of more than $250,000 per year	Around 1 per cent of fund members
Lowering the annual non-concessional contributions cap	Individuals who make, or plan to make, more than $100,000 in non-concessional contributions in a year (or $300,000 over 3 years) or have balances exceeding $1.6 million	Less than 1 per cent of fund members
Strengthening the integrity of transition to retirement income streams	Individuals who have, or plan to have, a transition to retirement income stream	Around 110,000 people

Source: Australian Federal Treasury www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement

> *More investment is needed in transport to encourage affordable housing supply.*

balances (one significantly above $1.6 million perhaps), then it would be astute to consider spouse contribution splitting to equalise the balance.

It also means SMSF trustees relying on current higher contribution caps to service loans in their super funds may have to make other plans.

According to some corners of the market, a raft of commercial properties are coming up for sale as a result of panicked SMSF investors fearing the new super rules will increase potential liabilities.

But they don't have to sell: assets exceeding the $1.6 million individual ceiling will need to be spread across two holding accounts – the pension account and accumulation account. The accounts are often routine in an SMSF, when there are various members and some are already retired and drawing a pension.

Another misconception appears to be that SMSF investors will be hit with retrospective CGT if they don't sell a property before 30 June this year.

As we know, CGT applies when there is a disposal of an asset, such as a change of owner. However, in the case of an SMSF, the owner always remains the same whether you are in pension phase or accumulation phase, so there is no transfer of owner.

Within an SMSF, the way the tax-free status is applied (under a pooled method) is that the SMSF would engage an auditor to prepare a pension certificate to confirm the percentage of fund assets used to provide a pension income. Once that is determined, the income sourced from that percentage is exempt.

For example, if a fund has a property worth $2 million, the SMSF members would need to transfer $400,000 back into accumulation. The auditor would then issue a new pension certificate to state that 80 per cent of the fund earnings would be exempt. Hence there is no change of ownership.

The transitional arrangements allow for the member to reset the cost base in this process to the value as at 30 June 2017. Tax will then be payable on the growth on the 20 per cent of the asset that is in accumulation.

Compared with the top tax rate of 45 per cent for income earners over $180,000, a rate of 15 per cent in an accumulation account is still very attractive. CGT also remains at 10 per cent for SMSF assets, where the asset is held for more than one year.

It's important that SMSF investors considering selling their properties take into account the transaction costs and time involved in doing so – the numbers are unlikely to add up to a win.

With all property investment, inside and outside of a SMSF, one of the keys to success is time in the market so that the power of compounding can work its magic.

Therefore, SMSF investors need to stay calm and look to the long-term, rather than react to the relatively short-term impact of these changes.

WHY PROPERTY IS STILL AN ATTRACTIVE INVESTMENT

While changing super rules can unsettle investors, well-selected property remains an attractive investment class for the long-term.

Despite unease amongst some SMSF investors, talk of property price bubbles and tightening investor lending policies, Australian property investors remain bullish about the long-term merits of residential real estate.

The second annual PIPA Property Investor Sentiment Survey, which gathered insights from over 1,000 property investors in late 2016, showed that more than 70 per cent of respondents believed now is a good time to invest in property – up by five percentage points compared with the year before. About 60 per cent of respondents were looking to buy property in the next six to 12 months.

The survey results confirm that property investors remain focused on the long-term benefits of property investment, which is a mindset that SMSF investors should employ as well. Importantly, most investors were not speculating on quick gains in a low interest rate environment. About 15 per cent of survey respondents had invested in property via a SMSF.

The long-term wealth benefits that are available from residential real estate include the potential for capital growth and rental income. Moreover, it's an investment class backed by a real asset that everyday Australians can relate to and understand – often better than other investments.

> ***Property investors remain focused on the long-term benefits.***

PIPA'S 2016 PROPERTY INVESTOR SENTIMENT SURVEY
– key stats at a glance

- **71%** of investors believe now is a good time to invest in property
- **58%** of property investors are looking to purchase in the next six to 12 months
- **72%** of investors are not worried about possible changes to negative gearing
- **32%** of investors say changes to lenders' policies have impacted them
- **65%** of property investors secured finance for their last deal via a mortgage broker
- **88%** of investors believe people who recommend property investment should be regulated and licensed.

Property has also proven itself a very stable investment, particularly when compared to many other popular assets such as equities. While both have delivered relatively similar overall returns to Australian investors over the years, property has shown fewer price fluctuations and lower volatility compared to the share market.

A recent report by Atchison Consultants affirms this, showing Australian residential property, with its relatively low volatility over time, provides a "stable anchor" to investment portfolios, and this remains the case even with the new super rules coming into effect later this year.

THE OPPORTUNITY FOR QUALIFIED ADVISERS

Australians who have been carefully planning their estates under the current super rules will no doubt be forced to revisit that advice, given the slew of changes to be introduced on 1 July. However, this provides an opportunity for qualified advisers to connect with clients.

Anyone looking to set up a SMSF should seek advice from a licensed financial planner or qualified accountant. These industry professionals should concentrate on familiarising themselves with the changes in order to respond to trustees' queries and concerns.

There are a number of Federal Treasury fact sheets available online and financial planners and accountants should also utilise any information communicated by their respective professional associations.

These missed deductions add up

BRADLEY BEER
CEO, BMT Tax Depreciation

Closed circuit television systems, garden watering systems, garbage bins and intercom systems are all assets that are often missed by property investors when claiming depreciation.

These and other assets such as door closers, shower curtains and smoke alarms are part of a list of commonly overlooked assets which BMT has created to help investors avoid missing out on valuable deductions.

Although many of these items have a low depreciable value – as shown in the following table – the depreciation deductions that can be claimed for these items can add up to thousands of dollars for an investor.

Therefore, in order to maximise deductions, it's important that these easily missed items are not overlooked.

So how can property professionals ensure no item is missed in order to maximise their clients' deductions?

1. Take note of the assets included in the below table

2. If your client already has a depreciation schedule and own any of these assets, check that they are included in the schedule and depreciation claim. If items have been missed, the Australian Taxation Office will allow investors to amend two previous years of missed deductions

3. If your client currently does not have a depreciation schedule, this should be organised with a specialist quantity surveyor as soon as possible in order to maximise deductions

4. Ensure your specialist quantity surveyor can outline the deductions available for assets which are eligible* to be written off immediately or added to the low-value pool. This may include some of the assets listed above in addition to more obvious assets.

Asset	Depreciable value	Depreciation deductions - Year
Ceiling fans	*$265	$265
Clocks - electrical	*$20	$20
Door closers	*$185	$185
Exhaust fans	*$125	$125
Freestanding bathroom accessories	*$110	$110
Garbage bins	*$250	$250
Garden sheds - freestanding	**$855	$160
Smoke alarms	*$145	$145
Closed circuit television system	$1,550	$775
Garbage disposal units	**$455	$85
Garden watering systems	**$558	$105
Intercom system	**$745	$140
Solar powered generating system assets	$5,500	$550
Spa bath pumps	**$425	$80
Window shutters - automatic	**$800	$150
Total	**$11,988**	**$3,145**

2017_TA333

The depreciation deductions within this table have been based on the diminishing value method of depreciation and are based on a first full financial year's claim. *Assets which have a depreciable value of $300 or less can be written off as an immediate write-off in the first full financial years claim. **These assets which have a value of $1,000 or less can be added to a low-value pool and depreciated at a rate of 18.75% in the first year.

Key:	Common assets often missed	More obscure assets rarely claimed

*Under proposed changes outlined in draft legislation (section 2 of Treasury Laws Amendment Bill 2017), investors who exchange contracts on a second hand residential property after 7:30pm on 9th May 2017 will no longer be able to claim depreciation on plant and equipment assets. Investors who purchased prior to this date and those who purchase a brand new property will still be able to claim depreciation as they were previously. BMT Tax Depreciation will be making an official submission outlining our concerns along with suggestions of alternative methods to better resolve the Government's integrity issue. To learn more visit www.bmtqs.com.au/budget-2017.

How to master the power of personal impact

LISA CLAES
CEO, CoreLogic

When it comes to climbing the career ladder, sometimes it's the little things that make the biggest difference, according to CoreLogic CEO Lisa Claes.

There's no such thing as an overnight success in life and business, but it doesn't have to be all blood, sweat and tears to the top either.

My career trajectory has been a varied and unconventional one, taking me from the Queensland bar (where I was the youngest female to qualify as a barrister) to a CEO in the data and analytics industry – with lengthy periods as General Counsel for a global multinational, and senior banking executive in the years between.

While I've needed to master many skills as I've climbed the career ladder, I've found that one of the most important, yet understated, is the power of personal impact.

Personal impact is a combination of attributes, qualities and experience that encapsulate us in a very unique way – visually, verbally and through our consistent behaviours. It's what makes us memorable and plays a huge role in our ability to influence others and get the outcome we want.

The good news is we can all learn to project ourselves with impact – whatever our ambitions in life.

1. EXUDE CONFIDENCE

Having confidence is easier said than done, but it's an essential part of getting ahead. If it doesn't come naturally, develop it with practice.

We've all heard the old adage "fake it 'til you make it", but you don't need to have all the answers. If you don't know something, say so decisively.

Whatever you do, strive to be memorable: black is almost always better than beige.

2. GET THINGS DONE

Your track record speaks volumes so build a reputation for getting things done. Do what you say you're going to do and when you say you're going to do it, so that others never need to follow you up.

There are always shifting priorities, so be agile and get in the habit of moving quickly. Build momentum – don't put off 'til tomorrow what you could do today.

3. NURTURE RELATIONSHIPS

High performers know that getting ahead is as much about "who you know", as it is about "what you know", so invest in building relationships inside and outside your industry.

Effective networking is an art form and an essential part of any job. Identify who your wider stakeholders are and take a considered approach to developing connections. Simple gestures, such as a note following a meeting, go a long way to cementing relationships. And always remember you need to give to get.

4. BE CREDIBLE

First impressions form quickly, so build credibility by ensuring you look and speak the part. Invest in your appearance – show you take yourself and your career seriously.

Speak the language of the industry you're in: learn the terminology, be aware of trends, and be alert to what's going on around you. Educate yourself continually – if you have gaps in knowledge, fill them quickly.

Never be anyone but authentically "you", but the best version you can be.

Whatever business you are in, consciously do something that will take you forward every day. Mastering your personal brand is an investment in yourself that will help you strategically shape your future.

Navigating today's complex lending landscape

DAVID JOHNSTON
Managing Director,
Property Planning Australia

The mortgage landscape is undergoing unprecedented change. As PIPA members, you would be acutely aware APRA initiated macro prudential regulatory headwinds making it more difficult to access lending for the average consumer.

APRA's intent is to:

- Dampen the growth in property values, in Sydney and Melbourne in particular.
- Reduce the indebtedness of Australian households – our national debt to income ratio is approaching a historical high of 200 per cent.
- Reduce any perceived risk-taking by lenders and mortgage brokers in the never-ending battle for market share and income.
- Make it easier to purchase a home and more difficult to purchase an investment property.
- Reduce the number of interest-only loans, and hence, increase the number of people making principal reductions on their loans.
- Keep the growth rate of investment loans under 10 per cent.

"Reduce any perceived risk-taking by lenders and mortgage brokers.

So how are the regulatory changes impacting the average borrower?

A mystery shopping exercise conducted by Macquarie Bank has found that banks are willing to lend approximately $100,000 less to first home buyers than what they would have two years ago.

As property industry professionals, we have all seen clear evidence of this.

Let's look at nine of the key changes.

1. STRINGENT ASSESSMENT OF BORROWER'S LIVING EXPENSES

Many of you will recall the not too distant days of mortgage lending where lenders used the same average living expenses figure to determine borrowing capacity for every borrower.

This was often the Household Expenditure Measurement or HEM. Taking such a one size fits all approach to determining affordability already seems somewhat draconian.

A mortgage broker must now confirm a borrower's living expenses in greater detail as part of the responsibility to undertake reasonable enquiries when determine borrowing capacity.

If the living expenses stated by the borrower are below the average baseline measure used by the lender, the borrowing capacity assessment will use the lenders selected baseline figure. Further, when the stated living expenses are less than the minimum benchmark, most lenders will request that the broker explain how the borrowers are managing to maintain a reasonable standard of living whilst having rock-bottom living expenses.

It makes sense that mortgage and property professionals should always determine

> A mortgage broker must now confirm a borrower's living expenses in greater detail.

affordability based on the borrower's actual living expenses, rather than an arbitrary figure unrelated to the borrower's personal circumstances.

2. INTEREST RATE DIFFERENTIALS

Some of the key changes:

- Despite no cash rate rises in the past 12 months, investment interest-only loans are now typically 31 basis points higher than 12 months ago (according to Canstar).
- The interest rate gap between investment interest-only loans and investment P&I loans is as high as 50 basis points with some lenders.
- The gap between interest-only investment loans and P&I owner-occupied loans is now as high as one percentage point.

Interest-only loans have increased to around 40 per cent of all mortgage credit and APRA has put pressure on the banks to reduce this number significantly.

Some may recall that a one percentage point differential between investment and owner-occupied loans was commonplace about 20 or so years ago. As the saying goes, history repeats!

The major dilemma for investors who have non-deductible debt is whether they should choose to pay the higher interest rate on the investment interest only to maximise deductions and focus on reducing non-deductible interest.

For most people earning more than $37,000 and paying 32.5 cents in the dollar in tax, the answer is still yes. Getting back $1 in $3 from the tax man means the "true" investment interest rate is still lower than the owner-occupied P&I rate due to the tax offset of the interest cost. Therefore, it makes sense to pay interest-only until you have paid off your non-deductible debt.

The equation gets more complicated for a borrower and mortgage professional when ascertaining whether to pay interest-only on a loan on a current home that will become an investment property when upgrading.

Reducing debt one way or another makes sense, the challenge is determining the best way to go about it while keeping one eye on the now – and one eye on the future.

3. INCREASING ASSESSMENT RATES

Lenders have always added a buffer on top of a borrower's interest rate when determining borrowing capacity. This allows for the possibility of rate increases and is a sensible risk mitigation strategy. In recent times, the buffer above the rate of the day has been increased, resulting in a reduction in borrowing capacity.

Despite the current interest rate paid by many borrowers being somewhere between the high three and five per cent, assessment rates are now typically between seven and eight per cent. This factors in a significant jump in rates, especially given the current economic climate.

4. INTEREST-ONLY BORROWING CAPACITY ASSESSMENT

Not too long ago, many lenders

would assess borrowing capacity over 30 years, even when an interest-only loan was sought. Now, if a five-year interest-only period is selected, the ability to make repayments is calculated on the P&I repayments the client will be required to make at the end of the interest-only period over the remaining loan term of 25 years. This severely reduces borrowing capacity and is another tool used to encourage more borrowers to select P&I loans – a key goal for the regulators.

5. INCOME INTERPRETATION

Most lenders have cracked down on their assessment approach to variable forms of income such as commissions, bonuses, and overtime. For a mortgage professional, this will often mean more research is required than in yesteryear to find the most appropriate lender for the borrower's situation.

All lenders have niches so expertise in lender policy, more so than ever, is a key differentiator for superior mortgage professionals.

6. FOREIGN BUYERS AND EXPATS

We have all read about or witnessed firsthand the increased difficulty for foreign buyers to obtain finance.

Expats are also feeling the pinch. They are now facing reduced LVRs from many lenders and a much more stringent approach to their income calculation due to the risks associated with foreign currency fluctuations and overseas economies.

If you operate in the expat space it pays to be aware of the friendlier lenders more willing to provide funding to Australian's plying their trade offshore.

7. LVR RESTRICTIONS

The sun has set on the days of high LVRs – for now.

Generally, home buyers can only borrow up to 95 per cent of the value of the property including lenders mortgage insurance (LMI), the standard used to be 95 per cent plus LMI which could end up being as high as 99 per cent. We could even go back as far as the pre-GFC days when 100 per cent and 106 per cent loans were an option – that would send a shiver up the spine of APRA nowadays.

For investors, the maximum LVR is 90 per cent but there is a catch! P&I repayments are required. Not ideal for those looking to pay off non-deductible debt first.

Interest-only repayments are only an option if your LVR is less than 80 per cent. An investor can still fully finance a purchase, however they will require equity in other property.

8. CASH OUT RESTRICTIONS

"Cash out" for the uninitiated is where a loan is set up which accesses equity for the purpose of future use (e.g. renovations, deposit on the next property purchase, etc.) Subject to borrowing capacity and equity, this was a way to set up investors to be able to take advantage of opportunities quickly and minimise the paperwork involved.

For borrowers with significant equity looking to set up a "cash out" facility it is becoming increasingly difficult. You may need to look further afield than mainstream lenders subject to the amount of "cash out" your client is after.

> *It pays to be aware of the friendlier lenders.*

> ***Assessment rates are now typically between seven and eight per cent.***

9. **BORROWING CAPACITY**

The main thrust of the eight changes above is to restrict borrowing capacity whilst incentivising the reduction of debt. This, in theory, should slow down growth in property values and reduce the nation's debt-to-income ratio. That is APRA and the government's plan anyway!

Some other areas impacted by the broad reaching changes, not touched on above, include SMSF lending, low-doc loans and equity release products for seniors.

> ***APRA now has the ability to apply pressure to these second-tier lenders.***

SUMMARY

One of the main drivers of property growth is the ability to access debt to fund property. If the flow of money into the property market is severely restricted, it is logical to assume that property value growth will be diminished. Less money entering into any "free" market will impact prices.

As ethical property professionals, we are in a privileged position to assist people to make educated mortgage decisions whilst purchasing properties that suit their goals and risk profile.

Most would agree that should the rate of value growth in the Sydney and Melbourne property markets continue at the rate of knots of the past few years, the odds of a painful landing increases. This is a story line which none of us want to be part of.

If we step back and take a long-term view, the regulator-induced lender changes are simply part of an adjustment in the property and mortgage cycle. Living through a government-induced contraction in the cycle for lending can cause challenges and frustrations to borrowers, property professionals and mortgage professionals alike.

The reality is that most would-be borrowers will still be able to obtain finance through mainstream lenders. For some, uncovering the appropriate lender may require more digging, research and phone calls than 12 months ago. It might mean looking further afield at the non-banks.

It is worth noting that APRA now has the ability to apply pressure to these second-tier lenders. This new power was quietly slipped into the recent Federal Budget. It provides a backstop to restrict the access to finance further if deemed necessary. This means that there still may be more pain when it comes to accessing funding for higher-risk investors and property buyers.

Like the property market, lending cycles swing back and forth. Any adjustment phase of a market cycle, provides opportunity for the experts in the field who can adapt the fastest.

Having invested the time and effort to develop your professional skills by becoming a PIPA member, there is no doubt you set a high benchmark for yourself, and will view this as an opportunity to showcase your expert skills rather than something to fear, irrespective of whether you agree with the reasoning or politics behind the changes.

member profile

*BMT Tax Depreciation CEO **Bradley Beer** has been with the company for nearly two decades and has also been a PIPA member for more than six years.*

PLEASE PROVIDE A BRIEF DESCRIPTION OF YOURSELF AND YOUR BUSINESS

I am the Chief Executive Officer of BMT Tax Depreciation and have been with the company since 1998. BMT are specialist quantity surveyors and we focus on the preparation of tax depreciation schedules for residential, commercial, agricultural and manufacturing investment properties.

We commenced business in 1997, offering both traditional quantity surveying and tax depreciation services with an office in both Sydney and Newcastle. Demand from property investors nationally saw the tax depreciation schedule side of the business expand rapidly and BMT now provides an Australia-wide service

BMT is one of the fastest-growing and successful quantity surveying firms in the marketplace today and remains committed to providing the most comprehensive and accurate tax depreciation schedules available with a personalised approach.

2) WHEN AND WHY DID YOU JOIN PIPA?

I joined PIPA in January 2011. I realised that by being a PIPA member I could ensure that BMT continues to grow and improve in line with the highest industry standards.

It's also important in this industry to be transparent and trusted – you're working with what often is people's biggest investments after all – and PIPA is obviously committed to achieving this transparency.

3) WHAT ARE SOME OF THE MAIN CHALLENGES WITHIN THE DEPRECIATION SECTOR AT PRESENT?

Recently the Federal Government announced some proposed changes relating to plant and equipment deductions.

Since this was announced we have been speaking with government with the aim of developing fair policy, which covers all the necessary factors and we will be making a formal submission as part of the public consultation.

Many investors who have contacted us have asked how they will be affected. The proposed changes won't have any effect on properties that are already owned. It will only affect owners who have exchanged contracts on an investment property after 7.30pm on May 9, 2017.

You can read our full recap of how the proposed changes to depreciation will affect investors here www.bmtqs.com.au/budget-2017

4) HOW CAN BMT HELP PROPERTY INVESTMENT PROFESSIONALS WITH THEIR CLIENTS?

Understanding the benefits of depreciation and being able to communicate this with clients can give investment and property professionals a competitive edge. It acts as a value added service and will set them apart from competitors who are focused solely on property management or sales tasks.

Property investors always want to improve their returns. By making your clients aware of this easy source of cash flow you can increase loyalty and potentially help grow your clients' portfolios, bringing more business back to your office.

A property professional could also use a BMT Tax Depreciation Estimate to demonstrate to potential buyers the depreciation deductions a property could be entitled to. This can make a sale more enticing as the buyer can see realistic returns.

To assist property professionals, BMT Tax Depreciation offer a number of complimentary resources. These include brochures and educational material, articles for newsletters and websites and depreciation training sessions.

5) WHAT ARE SOME OF THE MOST COMMON MISUNDERSTANDINGS THAT PROPERTY INVESTORS TEND TO HAVE ABOUT DEPRECIATION?

There are a few common misunderstandings when it comes to depreciation. The first is that only new properties can benefit.

While the proposed budget changes may have added some fuel to this rumour, it is always worth enquiring about a property as there is usually always some claim to be made which will benefit the owner.

Secondly, some owners believe that they can only claim at tax time, and if they haven't ordered a schedule by June 30 they'll have to wait another year. This is not true; a schedule can be ordered at any time of year.

Finally, some investors may believe that they can DIY their depreciation claim. This can lead to a lot of errors and missed opportunities for more cash flow.

An investor should always hire a quantity surveyor specialising in depreciation to ensure they are maximising returns in a manner that is complaint with ATO legislation.

6) WOULD YOU RECOMMEND OTHER PROPERTY INVESTMENT PROFESSIONALS TO JOIN PIPA? AND WHY?

Absolutely. Aside from giving your clients or potential clients the assurance that you abide by a Code of Conduct and work to a certain standard, it's also a great source of guidance and education for property professionals.

I also believe that in order to be the best you can be in any profession it's important to be on top of the latest industry happenings and being a PIPA member is a great way to do this.

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

Aside from implementing any legislative changes to depreciation into our business and operations, we'll continue to invest in MyBMT.

This free online portal allows investors and their nominated accountants to view depreciation schedule summaries, access the portal to follow the process of a schedule's completion, request to update an existing schedule so it remains current and add or remove assets if an owner is making changes to their property.

They can also request a quote and order a new depreciation schedule. It's a project we're really excited about and something we've had much positive feedback on already.

And as always, we'll continue to look at how to further improve our service and offering in order to help investors Australia-wide maximise their depreciation deductions.

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

corporateaffairs@pipa.asn.au

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.

WA broker 'happy' to move to fee-for-service

A Perth-based mortgage broker has explained why he would be comfortable charging a fee-for-service as the broking industry evolves, given the additional services he offers his clients.

http://bit.ly/PIPA-004-22A

Why negative gearing into property is still worth it

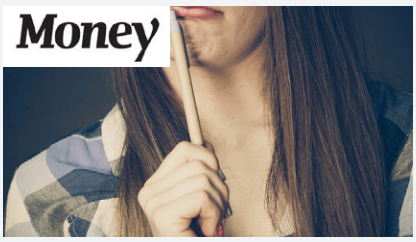
Treasurer Scott Morrison kept his word last month and resisted calls from economists and Labor to remove or water down negative gearing.

http://bit.ly/PIPA-004-22B

PIPA urges sensible approach to housing affordability

PIPA has urged the government to take a sensible approach to housing affordability policy, following its discussions with government representatives in April and ahead of the 2017 Federal Budget.

http://bit.ly/PIPA-004-22C



Will Budget super saver scheme push up property prices?

First-home buyers should welcome the federal government's new superannuation savings scheme, which will provide income tax reductions to help them save a deposit for their first home.

http://bit.ly/PIPA-004-22D

Investor shares his approach on 'asset protection'

Ben admits that like most investors, he still worries over his action plan and strategies, and whether they are working to help him maximise the benefits he could reap from his investments.

http://bit.ly/PIPA-004-22E

FEATURES

Sharad Jain, Standard & Poor's

ANALYSIS

MORE BAD NEWS FOR THE BANKS

The major banks got slapped with the government's bank levy and now 23 other financial institutions are facing a credit ratings downgrade. What does this mean for the banks and for brokers?

Ben Kingsley, Property Investment Professionals of Australia

THE country's medium- and smaller-sized financial institutions may have escaped the government's $6.2bn bank levy proposed in the federal budget, but another announcement in late May will leave them pinched in other ways.

Global credit ratings agency Standard & Poor's (S&P) lowered the long-term issuer credit ratings of 23 financial institutions (including Bank of Queensland, Bendigo and Adelaide Bank, Liberty Financial and MyState Bank) by one notch each on 22 May. This sparked questions and concerns about what pressure this would put on second-tier banks, and who would bear the brunt of further funding costs.

The agency said the move had come about because of the "continued build-up of economic imbalances in the country" due to the rapid rise of private sector debt and skyrocketing house prices, primarily in Sydney and Melbourne, which had exposed financial institutions to greater risks.

Sharad Jain, S&P's director of financial institutions ratings, said the agency had revised the outlook on a number of banks to negative late last year based on the same trend.

"At that time, our expectation was whilst there had been rapid build-up in the last several years, in the near future this growth trend would abate and the build-up of balances would slow down," he said during a conference call to explain the decision.

But that didn't happen. Instead, there continued to be accelerated growth in house prices, further driving up the risks of a sharp correction in property prices and the severe impact this could have on the economy and the banking system. "Where we sit now, we think that risk has become too significant that the ratings are no longer consistent with where they were previously," Jain said.

Many of the smaller banks begrudged the fact that the four major banks and Macquarie weren't subject to the downgrade as well, reflecting S&P's expectation that the government would bail out the banks if it came down to it.

"According to S&P, the four major Australian banks are materially driving the system-wide risks in Australia given their collective dominance, and yet [this] decision further entrenches their dominance and therefore the inherent risks," ME Bank CEO Jamie McPhee said in a statement.

Harald Scheule, an associate professor of finance at the University of Technology, Sydney, said that while it would depend on the rating of the individual bank, a single-notch downgrade might imply increases in funding costs of 10 to 30 basis points on wholesale debt. The cost-of-capital impact is much lower on average as wholesale debt is only a fraction of all funds, he said.

The banks affected also argued that the move was a step backwards in terms of improving competition in the banking sector, negating the government's attempt to 'level the playing field' through the introduction of the bank levy.

"[The downgrade] further reinforces the competitive inequity which hamstrings smaller banks and constrains competition," said MyState Group executive of broker distribution Huw Bough. In order to deal with this issue, he said the government needed to implement the Murray

"The regulators have not micromanaged lenders in this way since the 1970s" Murray Cowan, managing director, Better Mortgage Management

GROWTH IN HOUSE PRICES AND PRIVATE SECTOR DEBT

Source: S&P Global Ratings

%
150
140
130
120
110
100
90
80
70
60
2011 2012 2013 2014 2015 2016 2017F 2018F

total private sector debt as % of GDP
National house price index (inflation adjusted)

Australian Broker

The Constant Investor

new members

***PIPA** welcomes our newest members and QPIAs...*

CORPORATE MEMBERS

- **DANIEL PETERSON**
  iBuildNew
- **JOHN RANKIN**
  iBuildNew
- **PAUL DAVIES**
  Jarickson Insurance Brokers
- **JAMES FREUDIGMANN**
  PMC Property
- **WILLIAM HOSKINGS**
  PMC Property

INDIVIDUAL MEMBERS

- **GLEN BYRNE**
  Astute Darra
- **TRENT FLESKENS**
  Strategic Property Group

QPIA

- **GLEN BYRNE**
  Astute Darra
- **JAMES FREUDIGMANN**
  PMC Property

Housing insights from the 2016 Census

ELIZA OWENS
Commercial Research
Analyst, CoreLogic

The 2016 Census data reveals how people are dealing with unaffordable housing in the capital cities.

While wage growth sits at a record low 1.9 per cent against higher costs in basic needs like housing and health, and consumer confidence hits a 12-month low of 96.23, it is no wonder that people are paying more attention than ever to events such as the Census.

A flush of new data gives a clearer perspective of the state of Australian households, and how households are changing in response to factors such as housing affordability and low income growth.

SHARE HOUSING IS INCREASING

The 2016 Census data reveals how people are dealing with unaffordable housing in the capital cities: a rapid increase in group households.

A group household is one that consists of two or more unrelated people, where all residents are 15 or over.

The national increase in group households in the five years to 2016 was 10.5 per cent. This is lower than the group household increase between 2006 and 2011 (which was 14.35 per cent, and coincided with a five-year rent increase of over 38 per cent).

However, the group household type grew rapidly compared to a seven per cent rise in the number of total households and seven per cent in the number of single households across Australia.

Where there has been high house price pressures such as in Sydney, the number of share households rose by an astonishing 18 per cent from the previous Census against a total household rise of approximately seven per cent – and compared with nine per cent growth in group households between 2006 and 2011.

The growth in the number of lone households in the five years to 2016 – that is, people living by themselves – grew 2.2 per cent. Of 1.5 million singles living in Sydney, approximately 350,000 people are living by themselves. The number of people per household in Sydney rose to 2.8 from 2.7 at the previous Census.

While there are a number of social and demographic trends that may explain the increase in group households – such as people marrying later in life and still qualifying as a "group" household – it is important to further investigate the relationship between increasing rents and deposit hurdles, and the incidents of share housing.

Indeed, the decision to marry later in life could be the result of being unable to attain a family home earlier.

> ***The number of lone households grew 2.2 per cent.***

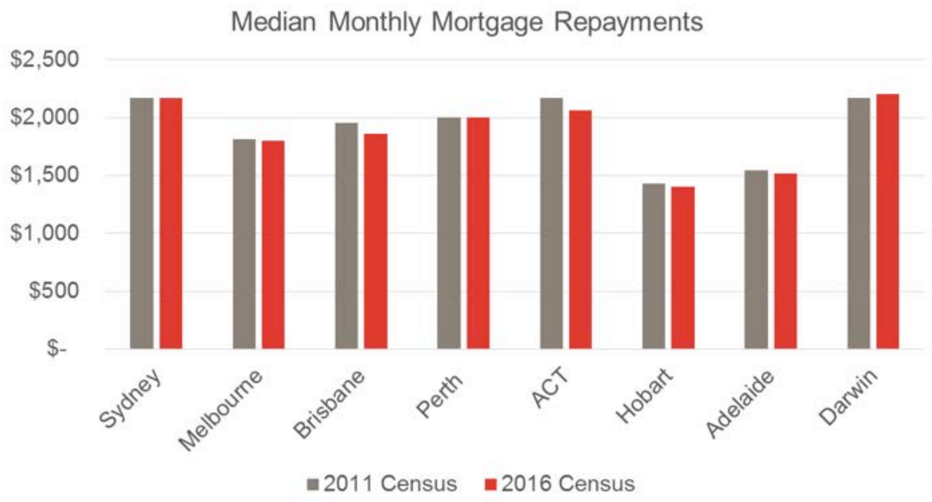
COST OF SERVICING A MORTGAGE DECLINED

As reported in the quarterly CoreLogic Perceptions of Housing Affordability report, the toughest barrier to entry in the housing market is the deposit hurdle, while mortgage servicing costs have declined with interest rates.

The 2016 Census data suggests that since 2011, the typical household mortgage repayment across the capital cities was either unchanged or fell (with the exception of Darwin).

At a broad capital city level the trend looks mild.

When the 2011 Census was taken, the average standard variable rate was 7.8 per cent. By the 2016 Census it had fallen to 5.25 per cent. Thus lower interest rates likely reduced the cost of outstanding mortgages through refinancing opportunities, while new home owners also benefitted from lower interest rates, despite also encouraging rapid price increases in several of the capital cities.



SHARE OF VACANT DWELLINGS INCREASED

Vacant homes are another contentious issue in the Census.

In the context of high housing pressures and a perception of limited housing supply, anecdotes of investment properties bought and left vacant.

At the time of the Census, 11.2 per cent of dwellings were recorded as unoccupied – which worked out at 1,089,165 dwellings across Australia. This was a little higher than the previous Census result of 10.2 per cent or 934,471 dwellings.

At the time of the 2016 Census, CoreLogic saw a typical vacancy rate of about 5.3 per cent associated with market turnover.

Extrapolating that figure to the Census dwelling count of 9,901,496 suggests that market turnover could account for 524,779 of the vacant dwellings at the time of the Census.

Furthermore, the highest level of vacant properties from the 2011 Census were actually in areas associated with holiday making in the east, such as coastal Victoria and regional NSW, rather than in areas of high residential demand.

In the 2016 Census results, Sydney, Melbourne and Brisbane had vacancy rates of 7.7 per cent, 9.6 per cent and eight per cent respectively – below the national figure of 11.2 per cent.

It is worth noting that these capital city dwelling vacancy rates were each higher than the 2011 Census results.

Higher levels of unoccupied stock provide some credence to the notion that some properties are being purchased without an intention to tenant them, however at a broad capital city level the trend looks mild.

This phenomenon is most evident within inner-city unit markets. The Melbourne CBD, for example, saw an uplift in vacant dwellings from 14.9 per cent in the 2011 Census to 16.2 per cent in 2016.

While strong capital growth in Melbourne CBD dwellings (of 25.7 per cent between the 2011 and 2016 Census) supports continued dwelling construction to meet investment demand, rental income for vacant dwellings may be desirable once interest rates rise and capital gain returns soften.

CORELOGIC IS A CORPORATE MEMBER OF PIPA.