PIPA ADVISER

ISSUE #5

For members of the Property Investment Professionals of Australia

INVESTORS OPTIMISTIC DESPITE TOUGHER CONDITIONS

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)
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PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA

Investor Sentiment Survey results are in

Welcome to the fifth edition of the PIPA Adviser – your bi-monthly member e-magazine. It's been a busy two months since the last edition was published with the release of our *2017 Investor Sentiment Survey* results to the media and PIPA members.

The results, which are outlined in detail in the cover story of this edition, garnered strong media coverage across the country for the best part of a month.

What's more, we have more press releases due to be released about other elements of the results in coming weeks which will keep our brand in the media.

In September and October, more work was undertaken into the creation of the Property Investors Council of Australia, which was officially launched at the recent Sydney Property Buyer Expo.

It's PIPA's hope that this aligned, but separate, association will provide a much-needed voice for the two million property investors in Australia.

PIPA also had a stand at this year's expo, which attracted a large number of enquiries from consumers and potential members alike.

What was most pleasing, however, was the high percentage of people who already had an awareness of our association.

In fact, over the past two to three years, our brand awareness has probably doubled, with more and more consumers looking for the PIPA logo when searching on our website for a property investment professional to work with.

Recent analysis of traffic to the PIPA website showed more than 7,000 searches for PIPA members from consumers in the past 12 months.

Many consumers were also interested in our QPIA course as a way to transition into a career in property investment advice.

The next PIPA webinar has been scheduled for Wednesday 13 November and will be on the topic of "The economic benefits of property investment". You can register for the webinar here.

Last but certainly not least, this will be my final chairman's column as I will be standing down from the chair position at the PIPA AGM in November, but will remain on the board.

It has been a privilege to lead PIPA over the past four years, where we have grown membership significantly to now represent almost 200 property investment advice businesses, which collectively employ thousands of staff.

We have greatly increased our public awareness as well as lobbying with government of all levels, including the Federal Treasurer before this year's Federal Budget.

I couldn't be more proud of what our association has achieved in its history and look forward to being a part of its increasingly successful future.

BEN KINGSLEY
PIPA CHAIRMAN

PIPA

mediakit

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.

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NICOLA MCDOUGALL
Editor, PIPA Adviser

Has Perth's market hit the bottom?

After a few very rocky years, there are early signs the Perth market is heading back in the right direction – albeit slowly.

According to the Real Estate Institute of Western Australia (REIWA), Perth's property market showed signs it had stabilised in the June quarter, with its latest preliminary data revealing there was little change recorded to key market indicators over the three-month period.

REIWA President Hayden Groves said while conditions remained softer, there were some positive indications the market had finally begun to settle.

"We're certainly not experiencing the steep declines across the board we once were. Although no one can accurately ascertain the future of the property market, the signs are there that we have finally found, or are very close to finding, the 'floor' of the market," Groves says.

MEDIAN HOUSE AND UNIT PRICE

Preliminary REIWA figures for Perth's median house price shows it came in at $500,000 for the three months to June 2017.

"As with most quarters, this preliminary figure sits noticeably below the revised March quarter median of $515,000, but when we compare like for like, the June and March quarter preliminary medians are very comparable and show there has been little movement in median house price in the first six months of this year," Groves said.

"Once all transactions have settled, we expect the revised June quarter median to increase to a level commensurate with the revised March quarter median."

We're certainly not experiencing the steep declines .

Perth's overall median rent price softened.

Perth's preliminary median unit price also fared quite well in the June quarter, according to REIWA, coming in at $412,000, he said.

"Pleasingly, this is only down a marginal 1.8 per cent on the revised March quarter unit median, which suggests that once all sales have settled, this quarter's median unit price should come in higher than last quarter," Groves said.

marketupdate

DATA HEADING IN RIGHT DIRECTION

Listings for sale in Perth decreased from 14,841 at the end of March to 14,076 by the end of June, which was a reduction of 5.2 per cent.

Groves said this decline in stock levels was likely a result of the steadily improving sales transactions.

“Although we still have plentiful choice in the market, we do appear to have hit a ceiling and are no longer seeing the increases we once were. As long as transactions remain steady, we should see listing levels decline,” he said.

The June quarter data showed that it was one day faster to sell a house in Perth compared to the March quarter.

The average selling days figure for the three months to June was reported at 68 days.

The proportion of vendors who had to discount their asking price over the quarter, reduced marginally to 54.8 per cent.

“We also saw a minor shift in the amount sellers were having to reduce by, which lifted to 6.6 per cent from 6.4 per cent in the March quarter,” Groves said.

RENTAL MARKET REMAINS SOFT

Perth’s overall median rent price softened in the June quarter, edging back slightly to $350 per week from $360 in the March quarter.

Groves said this was a trend felt across each of the sub-regions, but a number of suburbs had stood out over the quarter, recording increases in their overall median rent price.

“Karrinyup in the Central sub-region was the best performing suburb for rent price, with its overall median lifting to $570 per week for the three months to June," he said.

“Other suburbs to record positive growth to their median rent prices were Booragoon, East Fremantle, Mount Pleasant and Mindarie.”

It took an average of 52 days for Perth landlords to secure a tenant for their rental in the June quarter.

Groves said the figure recorded for the three months to June was fairly steady on the March quarter, having only increased by one day.

“This stability was felt across all sub-regions, with only minor changes recorded in the average leasing day figure for the June quarter. The North West sub-region was the only sub-region to experience a reduction in the number of days it took to lease a property, while the South East sub-region saw no change,” he said

THE BOTTOM OF THE MARKET?

Momentum Wealth's Damian Collins said the Perth market was recovering from the down cycle with key macroeconomic and property industry indicators pointing to the bottom of the cycle.

"In terms of property investment, comparatively, Perth offers a strong market with positive trends and great long term growth drivers," he said.

The mining sector was more positive, he said, which was

> ***Vacancy rates differ across the metropolitan region.***

> ***Perth offers a strong market with positive trends.***

traditionally a key driver of the WA economy.

The State's unemployment figure had also reduced from 6.4 per cent 12 months ago to 5.4 per cent, he said.

"The stronger job market will also trigger much-needed population increases, which have recently dropped from three per cent per annum in the boom, to approximately one percent currently. The population rate fluctuates with the availability of work and we expect this to follow the employment trend and improve," Collins said.

Stock levels had reduced noticeably since 2015, while building approvals were also significantly lower.

Demand was also on the rise, with more people through open homes and multiple offers occurring.

But the rental market was still in recovery, Collins said, with its vacancy rate sitting at 6.9 per cent – albeit down from its peak of 7.6 per cent.

"The availability of rental stock has decreased rental rates after its unprecedented growth during the boom to more sustainable levels, but yields are still comparatively reasonable compared to the other capital cities – sitting at 3.8 per cent for houses and 4.3 per cent for units," Collins said.

"Rental vacancy rates differ across the metropolitan region with some areas still featuring low rates below three per cent, while others as high as 10 per cent, illustrating that while there are some great opportunities currently in the market, investors need to do their research or seek independent professional advice.

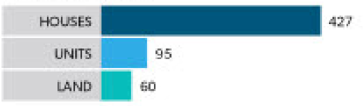
"The opportunities are there, but you'll need to identify them and act quickly as well."

Perth Market Snapshot

reiwa.com

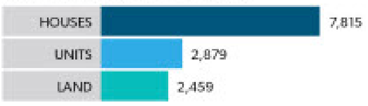
3 October 2017

PROPERTY SALES [1,2]



Total:	582
4 weeks ago:	492
Same week last year:	543

PROPERTIES LISTED FOR SALE [4]



Total:	13,153
4 weeks ago:	12,917
Same week last year:	14,164

PROPERTIES LISTED FOR RENT [4]

PROPERTIES LEASED

Median rent:	$350/week
Vacancy rate - 3 months to Aug 2017:	6.9%

TOP SELLING SUBURBS [2,3]

North of the River	
Doubleview	7
East Perth	7
Floreat	6
Maylands	6
Quinns Rocks	6

South of the River	
Baldivis	10
Byford	9
Hamilton Hill	8
Canning Vale	7
Armadale	6

AVG SELLING DAYS - 3 MONTHS TO SEPTEMBER

Private treaty	75
Auctions	27

3 MONTHS TO SEPTEMBER

Seller discounting [5]	51.8%
Average discount	-7.2%
Overall market sentiment [6]	-1.4%

Source: reiwa.com

[1] Contract sales reported by REIWA members. [2] Data may change due to sales falling through. [3] Dwelling sales only. [4] Listed on reiwa.com and other sources.
[5] Percentage of properties sold below listing price. [6] Included those achieving or exceeding list price.

BEN KINGSLEY
Chairman, PIPA

PIPA lobbies government on proposed new laws

PIPA lodged a submission to government in August in response to the draft Treasury Laws Amendment (Housing Tax Integrity) Bill 2017.

Our submission aimed to highlight to the Federal Government the important role that property investors play in the economy and society – and therefore they should not be penalised because of political pressure.

In our submission, we outlined that some industry consultation would have been welcomed prior to the "surprise" budget announcement.

IN REFERENCE TO THE PROPOSED DEPRECIATION CHANGES

It's fair to say that our submission didn't beat around the bush. In fact, we asked the government:

"Why is it that private investors seeking to add to the rental accommodation options for Australians are singled out in a "market" economy? Plant and equipment depreciation is a fundamental element of our tax system and will remain in all other sectors except in residential property."

We said that these proposed changes went too far in trying to address so-called "integrity issues" in the current system. In fact, these changes would result in residential property investors (mum and dad's made up of service workers like police, nurses, and teachers) trying to add to their retirement nest eggs being treated

> ***The important role that property investors play in the economy.***

> ***The vast majority purchased second-hand buildings.***

differently to all other investors in all other asset classes.

This would be done by proposing that the transaction of a property between two parties extinguishes the ability to claim a deduction for depreciation on plant and equipment assets within the property. Yet it's 100 per cent clear that these properties will experience wear and tear and deterioration by the use of the tenant, we said.

As highlighted by one of our members – BMT Tax Depreciation – in the 2015-2016 financial year they prepared 63,285 residential depreciation schedules. Of those, the vast majority purchased second-hand buildings. The average depreciation deduction claimed for plant and equipment assets on a typical three-year-old residential property, purchased for $600,000 was $21,178 for the first five years.

The proposed changes would result in an average loss of $4,236 (deduction) per year in this scenario. Based on a marginal tax rate of 37 percent, an increase of $47 per week in rental income would be required to counter balance this reduction.

We said this was a cost that landlords must seriously consider recovering through higher rents if this Bill was to pass.

CONCERN WITH "PREVIOUSLY USED" TERMINOLOGY

In the submission, we also outlined that assets acquired before the 9th of May 2017 would still be affected by the proposed changes under the draft legislation. In fact, it was not a true grandfathered approach.

Paragraph 2.28 of the draft Treasury Laws Amendment Bill outlines the following –

An entity will have "previously used" an asset if either:

- The entity is not the first entity that used the asset or installed the asset ready for use (within the meaning of Division 40) other than as trading stock; or
- The entity had used the asset wholly for purposes that were not taxable purposes (within the meaning of Division 40) for an income year.

A regular result of households or individuals climbing up the property ladder is to buy their next property, but retain their existing property and renting it out. The second point targets (presumably unintentionally) those who acquired a property for the purpose of living in the property for a period of time and then renting the property out later.

Yet paragraph 2.72 of the draft legislation (referring to assets that were previously used prior to the announcement for non-taxable purposes) is to avoid creating unintended incentives for individuals to move personal assets into rental properties.

We said that our members don't see any evidence of asset movement occurring. Assets depreciate from the date of ownership, whether they are used for taxable purposes or not. The difference is whether the owner is eligible to claim the decline in value as a deduction.

Depreciation starts from the date ownership commences,

> ***Assets depreciate from the date of ownership.***

there is no opportunity for an individual to claim in excess of the value of the asset simply because it was not previously used for taxable purposes.

Based on feedback from our members, this section gives rise to the legislation going beyond its intended purpose. Assets acquired before the 9th of May 2017 should be allowed to continue to deduct an amount for the decline in value when they are located within an income-producing property. The written down value can be easily calculated from when the asset was acquired.

PIPA'S ALTERNATIVE DEPRECIATION RECOMMENDATION

In the submission, PIPA put forward an alternative depreciation recommendation, which would address the government's integrity wishes without removing a legitimate deduction available to property investors.

At present there is no set costing methodology preventing an updated value being allocated to an asset each time it is sold/purchased, we said.

PIPA believes that this can be easily solved by establishing a single historical value (costs) method for depreciable plant and equipment assets that is carried forward and written down as it is claimed by the first and subsequent owners.

Put simply, when an asset is sold the written down value will become the opening value and maximum amount claimable by the subsequent owner, until there is no remaining un-deducted value left to claim. This would allocate each plant and equipment asset one value over an effective life regardless of how many owners the asset has had.

TRAVEL EXPENSE CHANGES

Whilst PIPA acknowledged that something did need to be done to ensure the current arrangements didn't further expose the government to potential excessive claims for travel deductions, we said that a blanket ban was an extreme measure which meant that borderless investors faced increased costs to operate their investment properties.

Furthermore, why was it that only residential investors were the ones singled out by this proposed legislative change?

Investing in residential property comes at significant cost – hundreds of thousands, if not millions, of dollars are invested by individuals and households into these assets. Property investors are only being prudent in protecting their investments by seeking to travel to inspect their property periodically.

Name a business anywhere in the world, we said, that the owners wouldn't regularly inspect their plant and equipment wherever it's located? It's risk mitigation and minimisation in its basic form and not being able to claim the costs of this travel would once again see mum and dad investors needing to decide if, and how much, of this cost they will choose to pass onto their tenants.

PIPA'S ALTERNATIVE TRAVEL EXPENSE RECOMMENDATION

In the submission we said that PIPA believed in the interest of fairness and that investors who hold residential property should be able to claim an amount to recover the direct travel cost involved to inspect their property/ies.

Yet to stop any potential of rorting the system, PIPA proposed a maximum-dollar cap for travel each year along the following lines:

- Investors owning property within their own state of residence – Max. $250 travel costs per property per year
- Investors owning property outside their own state of residence – Max. $500 travel costs per property per year

Such a fixed cap would ensure no excessive travel costs expenses, such as investors claiming five days of travel costs to inspect one property.

In our summary, PIPA said that our association is all about a sustainable residential property investment industry, whereby mum and dad investors have the option to invest fairly in an asset class that provides thousands of jobs and suitable accommodation for the 30 per cent of properties currently being rented.

Given the current restrictive lending climate, and crackdown on investors generally, our decision to launch the Property Investors Council of Australia (PICA) seems to have come at exactly the right time.

Keep an eye out for more information on PICA in upcoming editions of the PIPA Adviser.

PIPA will also continue lobbying against any changes to negative gearing or Capital Gains Tax.

You can read PIPA's full submission here.

"A blanket ban was an extreme measure.

PIPA

depreciation

Get on the front foot this financial year

BRADLEY BEER
CEO, BMT Tax Depreciation

With tax time now over, many investors may think they have missed their chance to organise a tax depreciation schedule and claim depreciation for their investment property.

They might decide to put it off until next tax time... and potentially forget again, missing out again on thousands of dollars in their pockets.

The good news is that you don't have to wait for tax time to organise a tax depreciation schedule – this can be done at any time of year and there is no time like the present.

Research suggests around 80 per cent of property investors simply don't claim because they are unaware of depreciation, they don't know the rules, or they don't realise they're eligible.

Legislation enforced by the Australian Taxation Office (ATO) allows investors to claim depreciation deductions on any income-producing property for the wear and tear that occurs over time to the building's structure (capital works deductions) and the plant and equipment assets* contained within it.

So why investors should get on the front foot this financial year and order their tax depreciation schedule now?

- On average BMT finds between **$5,000 and $10,000 in deductions** in the first full financial year
- If your client hasn't maximised or taken advantage of depreciation, they can **adjust the previous two years tax returns**
- Your clients are **guaranteed to receive double the fee in deductions** in the first year or BMT don't charge for their services
- The fee for a tax depreciation schedule is **100 per cent tax deductible.**

*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. Investors should note that these changes are not yet law, as the legislation still needs to be passed through the senate for confirmation. BMT Tax Depreciation remain in discussion with government around the new changes and will keep our clients informed on the outcome. To learn more visit www.bmtqs.com.au/budget-2017.

DOMINIC POWELL
www.smartcompany.com.au

ACCC successfully prosecutes spruiker

The Australian Competition and Consumer Commission (ACCC) has successfully pursued court action against "property spruiker" Rick Otton, with the Federal Court finding his company made a number of false and misleading representations to customers about wealth creation through real estate, including the claim consumers could "buy a house for $1".

Otton runs the company We Buy Houses Pty Ltd and promotes himself as a self-made millionaire and an "internationally recognised property investor and mentor" on his numerous websites promoting real estate purchasing strategies.

The consumer watchdog pursued court action against We Buy Houses in 2015, and this month the Federal Court found Otton enticed customers into signing up for his various workshops and seminars by claiming they could purchase a $1 house "without needing a deposit, bank loan or real estate experience, or using little or none of their own money".

The court said the company failed to sufficiently inform consumers that the strategy could only work if they already owned property or could finance a bank loan.

Additionally, the court found the company represented to clients they could "build a property portfolio without their own money invested, new bank loans or any real estate experience, and start making profits immediately and create or generate wealth", according to a statement from the ACCC.

The ACCC said some customers paid up to $3000 for a ticket to one of Otton's boot camps, and an additional 700 consumers participated in one of his mentoring programs, with a total cost of $26,000.

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Read the full story here.

PIPA pipa profile

*New PIPA Membership Advisor **Nicole Sant** is an active property investor whose role is to assist new and existing members as well as QPIA students.*

TELL US ABOUT YOUR ROLE WITH PIPA

Consumer demand for trustworthy property investment professionals is growing significantly and my role with PIPA enables me to fulfil that need by connecting with professionals and engaging them to become members of our association.

WHAT IS YOUR BACKGROUND INSIDE AND OUTSIDE THE INDUSTRY?

The majority of my working life has been within the public service and healthcare industry. I specialised in customer service and influencing healthcare organisations to implement new initiatives and processes.

My journey into property started at the age of 24 when I bought my first investment. At 29, I had purchased my second investment property and as my exposure to property grew so did my interest.

After reading many investment books, I decided I needed to undertake some formal education to bring together the many facets of property investment. From my research I identified PIPA as the peak association where I could access a team of property investment experts.

PIPA's services gave me the information that I needed and not long after that the opportunity was presented to join the PIPA team.

WHAT DO YOU HOPE TO ACHIEVE IN YOUR ROLE?

I hope to contribute to PIPA's mission of raising the professional standards of the industry.

The need for suitably qualified professionals in the real estate sector is growing every day – especially in times of strong market conditions when spruikers reappear.

PIPA actively lobbies government for the regulation of property investment advice so that consumers can be protected from rogue operators.

WHY DO YOU THINK IT'S IMPORTANT THAT AN ORGANISATION LIKE PIPA EXISTS?

Given the property investment advice industry is currently unregulated I think it's vital that PIPA is at the forefront to protect consumer interests and raise the standard of property investment professionals.

> ***There are so many stories of consumers being ripped off.***

By growing PIPA's membership base, the association's clout with policy-makers exponentially increases – and that's a good thing for everyone.

YOU'VE ONLY BEEN IN THE ROLE FOR A SHORT TIME, BUT WHAT HAVE YOU LEARNED SO FAR?

I have learned so much about the different aspects of the property industry and the professionals who make all the wheels turn so to speak. The primary things I have learned, which I value the most, is the importance of networking and building relationships as this is a great way to learn from others and share knowledge and experiences.

There are so many stories of consumers being ripped off by unscrupulous operators, it's important that there is an organisation that can monitor and lead the way to make changes for the better.

WHAT CAN YOU HELP PIPA MEMBERS WITH?

I can help PIPA members with support services and information regarding PIPA membership and the Qualified Property Investment Adviser (QPIA) course that the association offers.

MEMBERS CAN CONTACT ME ON 0428 809 696 OR...

membership@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.

Property investors admit that they need 'more education'

Australia's property investors have high hopes for the future, but admit that more education is needed around the risks and benefits of investing in this asset class.

http://bit.ly/PIPA-005-18A

Discover hidden secrets and strategies at Sydney Property Buyer Expo

With the housing drought breaking recently, more homes are flowing onto the market, meaning now is the time to be well informed with property knowledge.

http://bit.ly/PIPA-005-18B

Borrowers in the dark over rising rates

A mortgage market analyst has said that he is "astonished" that banks don't tell borrowers how much their repayments will be if rates were to rise.

http://bit.ly/PIPA-005-18C

Property investors confident on real estate returns despite despite pressures: PIPA survey

Investors are positive about the long-term returns of Australian residential property, shrugging off concerns about stricter lending conditions, price bubbles and oversupply, a new survey has found.

http://bit.ly/PIPA-005-18D

Broker demand soars amid credit crackdown

Demand for mortgage broker services has skyrocketed in the last 12 months, with over 80 per cent of property investors eager to secure funding through the third-party channel.

http://bit.ly/PIPA-005-18E

SPRING MARKET SAFE AS HOUSES

Buyers to home in on Brisbane

SELLING SEASON

SOPHIE FOSTER

CONFIDENCE in Brisbane's housing market is at its strongest level in months amid growing belief that a rebalance against southern capitals is under way.

Buyers hit by affordability pains and capital growth slowdown in Sydney and Melbourne had triggered a flight of capital north, experts say.

Property Investment Professionals of Australia chairman Ben Kingsley said Brisbane and Queensland were "the next best bet" given "affordable buying and good yields".

"Sentiment is definitely on the positive side and there is a sense of urgency," he said.

"I think it is real ... Whether they're owner-occupiers or investors, they're now getting FOMO (fear of missing out).

"It's simply very difficult to get another million or more from the bank for a Sydney purchase, but to service $750,000-$800,000 for Brisbane might be easier."

Alex Jordan, of McGrath Estate Agents – Paddington, said the market began to pick up in late July.

"We were fairly flat until about August," he said.

"We're seeing more buyer inquiries, better numbers through open houses, there seems to be more confidence and we're starting to see some price growth.

"If this trend continues I think we will see rebalancing."

Properties unable to sell last year were coming back on the market and finding much stronger interest.

"Relistings are rising, and a lot of listings offered in August have been sold," Mr Jordan said. "It's now getting to the point where the stock is starting to tighten again.

"It's very different to early this year. There's a fundamental shift in confidence."

Analyst Lachlan Walker, of Place Projects, agreed that some areas were not able to get properties to market fast enough to meet demand.

"Sydney has come to the point where it's starting to plateau, which for Brisbane is a great opportunity given its affordability," he said.

"Queensland goes through long periods of stability before a lift in growth, so this could be one of those times."

John and Lisa King have been buoyed by the lift in demand, having just listed their five-bedroom family home at Albany Creek. "It seems to be a bit popular," said Mr King, who listed in spring "mostly because we were thinking to make the sale a bit quicker".

Also taking advantage of the positive sentiment are Samantha and Lachlan Stevens, who are auctioning their Coorparoo home.

…SITIVE: …achlan … their …home and (inset) John and Lisa King with children Ryan and Erin. Pictures: AAP/Steve Pohlner/Josh Woning

Courier Mail

Ben Kingsley speaking at the recent Australia Affordable Housing Conference in Sydney

new members

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

CORPORATE MEMBERS

- **PRAMUDITHA RODRIGO**
  Tomorrow Financial Solutions
- **ATHAR BHATTI**
  Iconic Engineering Australia
- **SHANMUGANATHAN GNANASOTHY**
  OM Realty

INDIVIDUAL MEMBERS

- **ANASTASIA COCKBAIN**
  Loan Market
- **IVANO LINO**

QPIA

- **TOMAS TURKAYOGLU**
  Performance Property
- **PAUL THOMPSON**
  Empower Wealth

BECOME ACCREDITED AS A **QUALIFIED PROPERTY INVESTMENT ADVISER (QPIA)**

CALL (02) 4302 1624

Investors optimistic despite tougher conditions

NICOLA MCDOUGALL
Editor, PIPA Adviser

The 2017 PIPA Investor Sentiment Survey shows that investors remain bullish with tighter lending conditions pushing them to use the services of professional mortgage brokers.

INVESTORS REMAIN BULLISH

A significant majority (70%) of investors believe that now is a good time to invest in residential property. That's a very similar result to last year, when 71% thought it was a good time to invest.

Moreover, 61% of investors are looking to purchase a property in the next six to 12 months, up slightly from 58% last year, and 47% purchased a property over the past year, up from 43% in the prior survey.

The optimism is consistent with the fact that investors focus on the long-term wealth benefits of real estate.

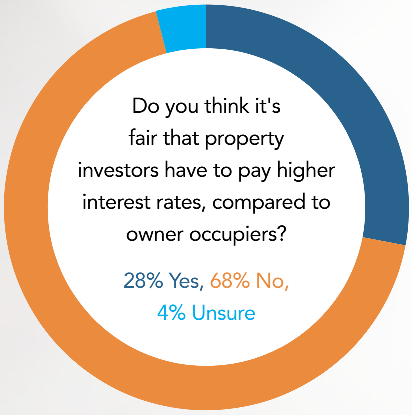
Long-term capital growth and rental growth are seen as the two biggest reasons for investing in property by those surveyed. Reflecting the focus on long-term rental returns, the largest group of investors (47% this year, up from 37% last year) continue to have a "hold and never sell" approach.

HARDER TO ACCESS FINANCE

The two leading concerns of investors surveyed were further tightening of investor lending and banks raising interest rates on investment properties. A majority (68%) of investors think it is unfair to pay higher interest rates compared to owner occupiers. Lesser, but still significant, concerns included a big correction in property prices and falling rental yields.

More investors than last year (43% in 2017 versus 32% in 2016) said changes to investor lending policies have impacted their ability to secure finance for an investment property. A smaller group (27%) said they hadn't been impacted while another significant minority (25%) said they weren't sure.

Despite the changes in lending serviceability criteria over the past two years, the largest proportion of investors (38%) report no difficulty refinancing, although a significant minority (28%) aren't sure and 22% said they are having difficulty refinancing.



A majority (55%) of investors with interest only loans said they won't struggle to meet the new principal and interest repayments once the current interest-only period expires, and only 12% said they would struggle. However, further illustrating the uncertainty regarding the changes, 20% weren't sure if they would struggle.

INVESTORS LOOKING TO MORTGAGE BROKERS FOR BETTER DEALS

As borrowing costs rise, investors are on the hunt for a better deal.

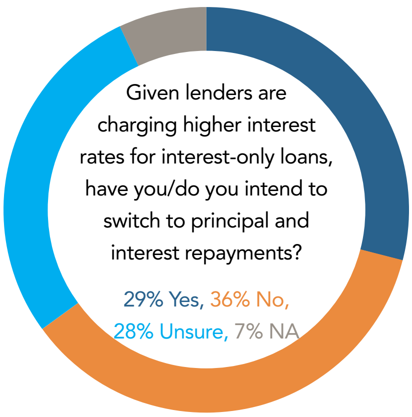
Given lenders are raising interest rates out of cycle with the Reserve Bank of Australia's cash rate, almost half (49%) said they are

A large majority (83%) intend to finance their next investment loan through a broker.

considering fixing their interest rate for some or all their loans.

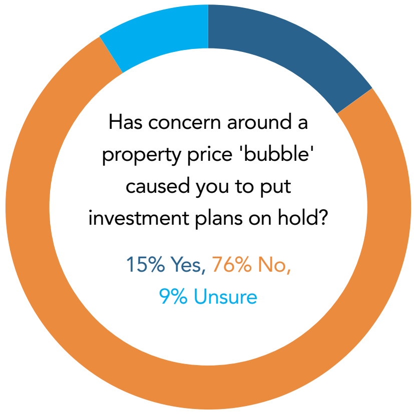
More than 23% said they would consider refinancing their loan for an interest rate differential of 0.5 percentage points, while another 23% would consider refinancing for one percentage point.

Given lenders are charging higher interest rates for interest-only loans, 29% of investors either have switched or intend to switch to principal and interest repayments while 36% have no plans to switch and 28% aren't sure.



In this environment, investors are increasingly looking to mortgage brokers to secure finance. A large majority (83%) intend to finance their next investment loan through a broker, up from 71% last year. And more than 73% of investors said they had secured their last investment loan through a broker, up from 65%.

WHAT BUBBLE?



Respondents are not worried about the proposals and lobbying of the Labor and Greens parties to ban negative gearing and reduce capital gains tax exemptions – or changes to investment deduction allowances.

Only 14% of investors have put investment plans on hold due to these proposals. Similarly, only 15% of investors have put their plans on hold due to concerns around a property price "bubble".

While 52% of investors are negatively geared, the majority (62%) of these negatively geared investors expect to become positively geared within five years. Moreover, only a small fraction (1%) of investors are having trouble covering their cash flow shortfall at the moment.

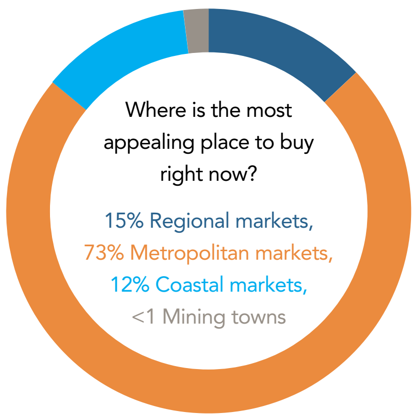
HOUSES OVER UNITS

Of those planning to invest in property in the next six to 12 months, those looking to buy a house has surged to 67% in 2017 from 59% last year.

This is likely a result of concerns surrounding oversupply in many high-density markets, though the proportion of people looking to buy units or apartments has fallen only fractionally, to 9.3% from 9.6%.

Much of the corresponding fall has been in the number of investors who are unsure what to buy, to 11% from 17%.

Meanwhile, the number of investors looking to buy existing or established properties has continued to rise, to 92% from 87%. Most of the corresponding fall has been in the number looking to buy brand new or off-the-plan properties, which has halved to 5% from 10%.



BRISBANE REMAINS THE FAVOURITE

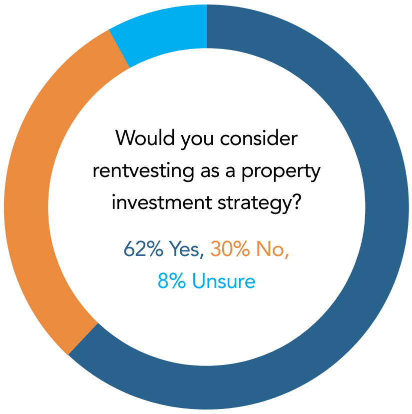
Investors are looking more intently at opportunities in metropolitan markets and coastal locations.

An increased majority (73%) of investors believe metro markets are the most appealing, up from 65% in 2016, and 12% believe coastal markets are the most appealing, up from 10% last year, while the proportion of investors that find regional markets the most appealing has fallen to 15% from 24%.

The proportion of investors who see Brisbane as the state capital with the best investment prospects has fallen to 43% from 49%. Nevertheless, Brisbane continues to be viewed more positively than any of the other capital cities. After Brisbane, Melbourne is the second most popular investment destination (32%), followed by Sydney (7.8%), Adelaide (6.6%) and Perth (5.5%).

RENTVESTING RESONATES

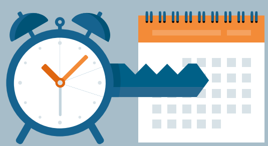
Nearly 70% of survey respondents said they would consider rentvesting – where instead of buying a home to live in, people rent in one location and invest in another – as a property investment strategy. A significant minority (30%) said they wouldn't consider the strategy and 7.7% were unsure.



Summary of key findings

Investors remain bullish on residential real estate

70% A significant majority of investors believe now is a good time to invest in residential property.



61% are looking to purchase a property in the next six to 12 months.

An investor loan crackdown makes it harder to access finance for a growing contingent

43% More investors than last year (43% in 2017 versus 32% in 2016) said changes to investor lending policies have impacted their ability to secure finance for an investment property.

Investors increasingly look to mortgage brokers as they hunt for a better deal

As investors hunt for a better deal, they are increasingly turning to mortgage brokers:

83% intend to finance their next loan through a broker, up from 71% last year.

Investors shake off concerns about negative gearing changes, talk of a property price "bubble"

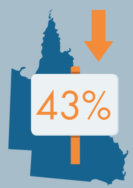
14% Only a minority of investors put investment plans on hold due to proposals to ban negative gearing and reduce capital gains tax exemptions.

15% Similarly, just 15% of investors have put their investment plans on hold due to concerns around a property price "bubble".

Houses remain the top investment choice

Of those planning to invest in property in the next six to 12 months, those looking to buy a house has jumped to 67% from 59%.

67%



Brisbane still the favourite

The proportion of investors who see Brisbane as the state capital with the best investment prospects has fallen to 43% from 50%, but it still continues to be seen most positively of all capital markets.

Rentvesting proves a popular strategy

The concept of "rentvesting" – where people rent in one location that suits their lifestyle and invest in another, often less expensive, location— is resonating.

62% A majority of survey respondents said they would consider rentvesting as a property investment strategy.

Investors want to see greater professional standards

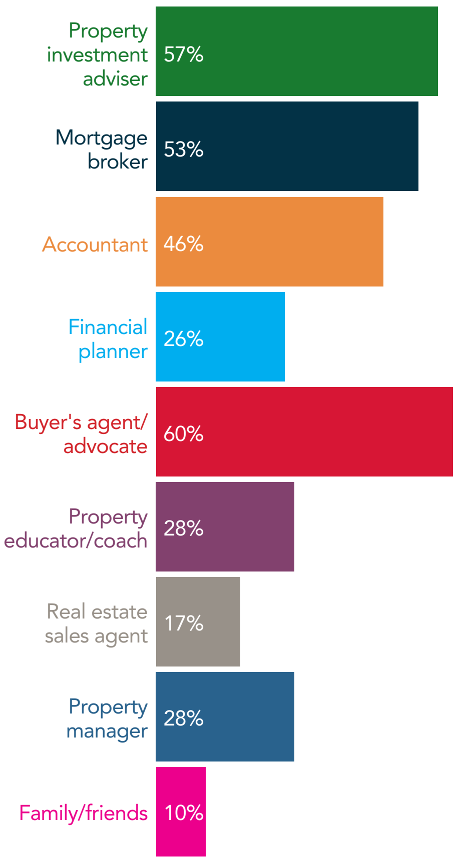
84% An overwhelming majority of respondents think that more education is needed for property investors and almost all (more than 90%) believe any provider of property investment advice should have formal training and be regulated/licensed.

PROPERTY INVESTORS ARE SOPHISTICATED IN THEIR APPROACH

This survey paints a picture of an investment community that is highly sophisticated, with investors doing a lot of planning and research before they buy. Twenty-one per cent of respondents have a detailed plan in writing to match their long-term investment goals and 33% of investors have a set strategy for investing.

An overwhelming majority of respondents are investment veterans who have purchased a number of properties in the past.

Where have you sought/where do you plan to seek property investment advice from?



Forty-two per cent hold two to four properties in their portfolio, while another 18% hold five to 10.

Investors continue to seek advice and services from a large variety of licensed and regulated professionals. More than half have in the past used the services of a mortgage broker, an accountant, and a lawyer or conveyancer. Mortgage brokers are the most commonly used service providers, with 85% of investors saying they have sought services from a broker in the past.

Interestingly, over the past year, there has been strong growth in the proportion of investors having sought/planning to seek property investment advice from a buyer's agent/advocate. In the latest survey, the proportion of investors in this group has risen to 60% from 39% last year, making these professionals the most sought-after group for investment advice followed by property investment advisors (57%) and mortgage brokers (54%).

Investors derive information from a large number of sources, with professional advisors, research/data providers and podcasts among the most common. Perhaps reflecting the complexities of using a self-managed super fund (SMSF), most (86%) of investors continue to invest in property outside their SMSFs.

GREATER INDUSTRY PROFESSIONAL STANDARDS

Despite their sophistication, a large majority (84%) of survey respondents think property investors need more education

about the risks and potential benefits of investing in property.

Even higher numbers (more than 90%) of investors surveyed continue to think that any provider of advice should have formal training and be regulated/licensed. Almost two thirds of investors are aware of PIPA and its role in representing the property investment industry.

ABOUT THE SURVEY

The PIPA Property Investor Sentiment Survey of 742 investors was conducted online in September 2017. Respondents were sourced from PIPA's database of property investors and its members' databases. PIPA's membership base includes property investment advisers, as well as a range of professionals whose business operations form part of the property investment process. These include financial planners, property buyers and advocates, accountants, mortgage brokers, real estate agents, lenders and developers.

To download a full copy of the results, visit www.pipa.asn.au.