PIPA ADVISER

ISSUE #13

For members of the Property Investment Professionals of Australia

What's ahead for PROPERTY MARKETS IN 2019?

PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA

PIPA *mission:*

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

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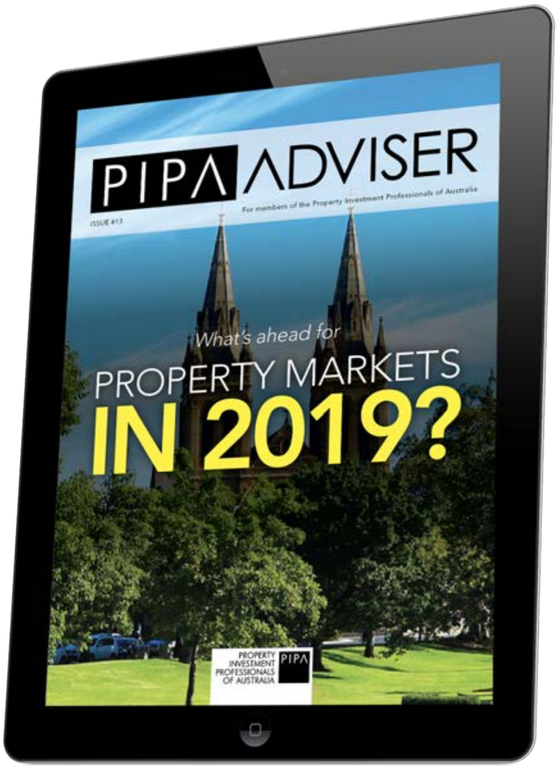
PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA



PIPA earns a seat at the table

Welcome to the latest issue of the PIPA Adviser. Since the last edition a lot has happened for your association, with PIPA invited to be one of the few industry bodies at a special housing taxation roundtable in Canberra last month.

The forum was an opportunity for the Federal Government to hear from associations like ours, as well as key property experts, to better understand the potential impacts from the Opposition's proposals to restrict negative gearing and reduce the Capital Gains Tax discount.

The Prime Minister, Treasurer and Assistant Minister Treasury and Finance were at the summit.

As our member communication outlined the day after the forum, I explained that the proposed policy changes would not increase supply but rather drive investors out of the market, which would ultimately see property prices reduce further.

I also said the proposal would not increase revenue for a Labor Government, rather it would significantly reduce taxation receipts because of fewer investors paying less Capital Gains Tax.

Being invited to the event was without a doubt a milestone for our association, given we have been lobbying all levels of government for more than a decade now.

Earning a seat at the table is a signal that our persistence is starting to pay off with a direct line of communication to government now cemented.

It was an honour to represent you all at the forum, especially given some of the other industry bodies have been in existence for many decades.

Other industry groups and property experts at the meeting included the Urban Development Institute of Australia, Master Builders Australia, the Real Estate Institute of Australia, the Property Council, Destiny Financial and PIPA board member Margaret Lomas, noted financial expert Noel Whittaker, Yellow Brick Road's Mark Bouris and SQM Research's Louis Christopher.

As we head into a Federal Election, it's imperative that the general public understand the potential negative impacts of Labor's proposed policy changes – especially in a time when market conditions are relatively weak.

PIPA will continue to speak publicly on the matter, and I would like to also request that members do what they can to help ensure the market doesn't get hit with another big policy stuck if Labor wins the upcoming election.

Until next time, yours in solidarity.

PETER KOULIZOS
PIPA CHAIRMAN

#1 for New Homes

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How much wealth will be lost in the pursuit of "housing affordability"?

PETER KOULIZOS
Chairman, PIPA

In the last edition of the PIPA Adviser, I detailed how the Federal Australian Labor Party's (ALP) proposed changes to negative gearing and Capital Gains Tax (CGT) would not be a boost to government revenue and would actually have the opposite effect.

This is because they would pay out more in tax benefits as new property has more depreciable items and they would collect less in CGT as new property doesn't grow in value as much as established property.

In addition to this, there would be fewer property investors in the market as most investors prefer to buy established property.

In this edition, I want to detail how the proposed ALP changes will affect housing affordability.

HOUSING AFFORDABILITY

I won't detail the technical definitions of housing affordability – just suffice to say that housing affordability relates to people's capacity to buy and pay off a mortgage on a property.

The proposed changes may have the desired effect in improving housing affordability – but at what cost?

Housing will become more affordable because house prices will drop.

How do I know this? The last time the ALP fiddled with negative gearing and CGT, property prices dropped by 10 per cent over a two-year period.

Some people might say that it was just coincidence that prices reduced at the same time these changes were brought in, but the reality is the ALP soon reversed those changes as they could see their impact on the property market.

If the ALP wins the next election and the proposed changes are implemented, property prices will drop, again.

I don't think they will drop by as much as 10 per cent as property prices are already falling and they can only go so low.

The implementation of these changes will also delay the end to the slowdown of the property market, which is not good news for anyone who owns property, whether they are currently a homeowner or property investor.

My question is: "Why do the ALP want to make housing more affordable for potential first home buyers by causing all residential property prices to fall?"

In other words, "Why do they want to negatively affect 100 per cent of the property market to help out one per cent of all households?"

Now, don't get me wrong, I truly believe that first home buyers must get assistance to get into the property market because it is good for them, good for the property market, good for the economy and good for the whole community.

However, there are better ways to assist first-timers than causing everyone's property price to drop to make it cheaper and easier for them to get into the market.

"How?" I hear you ask. I'm glad you asked!

EXTEND THE FHOG

We have had First Home Owner Grant (FHOG) for decades and this should continue.

However, the FHOG has been limited to only new properties for a number of years now.

There are better ways to assist first-timers than causing everyone's property price to drop.

It is very difficult to make housing more affordable for all when you are only focusing on two per cent of all properties.

The government should extend the FHOG to include established properties, so we are not forcing first home buyers to buy new houses, which are generally found on the urban fringes or new units, which tend to be tiny apartments.

Let's provide more choice to first home buyers.

LIMIT THE FHOG

To make it fair, the FHOG should be limited and it should be limited in two ways.

Firstly, the grant should only available to those who wish to buy a reasonably priced property, which is already in place in some States and Territories.

The FHOG should also be means tested.

In other words, it should only be available to those on a reasonable income.

Households who are on an annual income of $250,000 per year don't need it as much assistance as those who are on $70,000

INCREASE THE FHOG

The FHOG has not increased at the same rate as house prices.

In 2000, John Howard introduced the grant at $7,000.

Fast track 19 years, though, and house prices have increased by a much greater rate than the FHOG.

If the government feels that they can't afford to increase the FHOG, they could instead provide a FHOIOL.

WHAT'S FHOIFL?

Well, it stands for First Home Owner Interest Free Loan.

Instead of first home owners receiving a grant, which they don't have to pay back, they receive an interest free loan.

When they sell their property, they need to pay back the amount they borrowed.

If they sell their property in 30 years, the amount they pay back will seem insignificant but for those who sell within, say, 10 years, the payback is still a reasonable amount.

This money can then go back to government who put it into the pool of funds and then turn around and provide another FHOIOL to assist more first home buyers into the market.

SHARED EQUITY SCHEMES

This is where there is more than one party who owns a property.

Some state governments already have this in place.

Commonly, the state government would "sell" a property but in a shared equity scheme, it retains a share of it.

For example, the state government could sell a property for $500,000 to the open market.

Instead of doing this, they make their homes available to "purchase" to a certain section of the market (need to meet certain income and asset criteria) for $400,000 and the state government retains $100,000 equity.

In this example, the government has a 20 per cent share of the property.

The purchaser of the property can either buy out the state government's share at some stage or alternatively, they need to give them 20 per cent of the proceeds when it sells.

The Federal Government could learn from this and make this scheme available nationally.

BETTER WAYS

There are a number of other ways that we can make housing more affordable, but I have run out of space to detail them.

The point I am trying to make here is that there are many better ways to assist with housing affordability rather than causing everyone's home value to fall by changing negative gearing and CGT rules.

If you like what you have read and agree with it, please pass it on to your local MP.

The more informed politicians are, the more informed decisions they will hopefully make.

NICOLA MCDOUGALL
Editor, PIPA Adviser

Sydney starts the year with déjà vu

Most people might be keen to turn back time like Cher once sang given half the chance to right wrongs or perhaps buy Google stock.

When it comes to the property market, however, it's perhaps not such a great look when prices are reflective of a period a few years ago.

This time last year, the Sydney market had just posted median dwelling falls of about three per cent annually, according to CoreLogic.

At the start of 2019, that number had ballooned to nearly 10 per cent, with median dwellings prices reflective of about three years ago.

CoreLogic Research Director Asia Pacific Executive Tim Lawless said the top end of the Sydney market performed more poorly than expected last year.

"At the start of the year, there were already some submarkets in Sydney seeing values coming back from their peak in July and August 2017," he said.

"Our expectation for 2018 was that quality properties or those in more desirable locations would still see some limited growth, however most locations and price points would see continued weakening conditions."

He said tighter lending conditions appeared to be one of the most significant factors in the market softening with borrowers simply unable to secure the same level of finance compared to a year ago.

Houses in Sydney appear to be feeling the downturn the most as well, he said.

"Houses seem to have taken the brunt of the losses to date compared to units and the lower quartile in dwelling values is also seeing the least decline," he said.

"This would indicate that additional first home buyers coming into the market are somewhat making up for the decline in investors.

"Many agents we speak to, however, are reporting that this type of product is the hardest to move at the moment."

Regional New South Wales experienced reduced sales activity

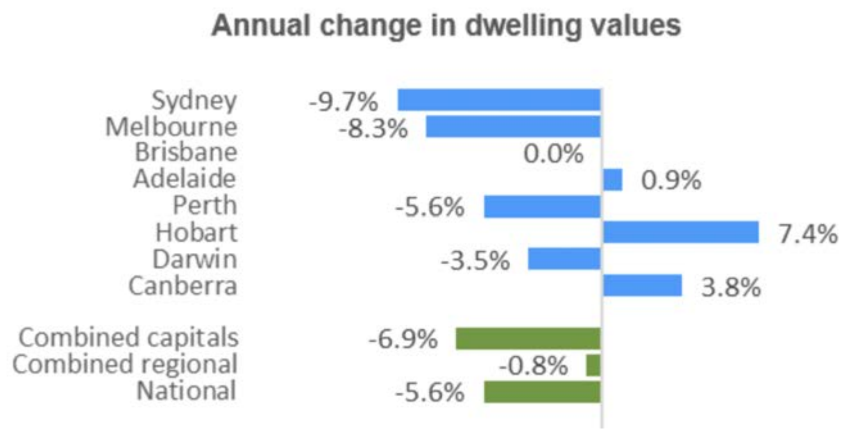
Index results as at January 31, 2019

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-1.3%	-4.5%	-9.7%	-6.5%	$795,509
Melbourne	-1.6%	-4.0%	-8.3%	-5.1%	$636,048
Brisbane	-0.3%	-0.4%	0.0%	4.0%	$494,345
Adelaide	-0.3%	-0.1%	0.9%	5.4%	$430,711
Perth	-1.1%	-2.7%	-5.6%	-1.9%	$441,920
Hobart	-0.2%	1.0%	7.4%	12.9%	$457,785
Darwin	-1.7%	-2.8%	-3.5%	2.3%	$412,940
Canberra	0.2%	0.8%	3.8%	8.5%	$596,933

SOURCE: CoreLogic

last year as well, however, prices remained robust.

"All three regions across New South Wales saw growth in home values over the year to September 2018, with the largest increase for houses seen across the Newcastle and Lake Macquarie region where the median house value increased by 9.0 per cent. The largest increase for units was seen across the Richmond-Tweed region, where the median unit value increased by 9.3 per cent," Mr Lawless said.



SOURCE: CoreLogic

NOT ALL BAD NEWS

STRAND Property Group Director and Sydney buyer's agent Michael Ossitt said last year's market was in stark contrast to the strong price growth experienced in proceeding years.

"It was the year that most Sydney property owners, in particular those that had to sell, would like to forget as most areas saw prices fall from their 2017 highs," he said.

"We saw supply-heavy suburbs such as Epping and Ryde see the greatest falls from their peak – down about 17 to 23 per cent.

"We have heard many stories of valuations coming in well under contract price for buyers who bought off-the-plan units during the boom period of 2015/2016, which are now starting to complete, and those buyers are having to find more deposit money, or default on their settlement."

However, changing market conditions doesn't mean that all Sydney suburbs are experiencing significant price falls.

In fact, Mr Ossitt said continued strong demand to live in lifestyle areas was protecting those locations somewhat.

"Some of the areas that saw the lowest retraction in prices were those lifestyle areas that continually have demand such as the Northern Beaches, Lower North Shore and Eastern Suburbs with prices softening on average between six to 12 per cent from their July 2017 peak," he said.

"We are active in the Northern Beaches market and tightly-held suburbs such as Fairlight and Balgowlah Heights actually saw prices continue to strengthen, especially in price brackets where cashed up buyers are less reliant on finance to buy."

While 2018 was probably not going to be looked back on overly favourably by property pundits, much of the price reduction was due to the tightening of credit, he said.

However, with the royal commission now out of the way, Mr Ossitt hoped a return to more normal lending conditions should start to improve the Sydney market.

"We should start to see banks compete for buyers again and the credit taps slowly turned back on," he said.

"As for 2019, we should start to see a floor to prices in many areas and even a return for investors who can borrow and see value in certain locations with improving yields.

"We still advocate to our clients to stay away from supply-sensitive areas such as the Hills, Parramatta and South Sydney where there are still many hundreds, if not thousands, of new apartments still under construction and stick to low supply areas where there is a continued demand from owner-occupiers who want to live close to transport, amenities and lifestyle drivers.".

Stick to low supply areas where there is a continued demand from owner-occupiers.

PIPA

pipa profile

*New PIPA member **Nick Viner** established Buyers Domain in Sydney in 2009, after his career as a property lawyer lead him to learning about buyer's agents "by accident".*

CAN YOU PLEASE TELL US MORE ABOUT YOUR BUSINESS?

I have been a property buyer's agent since 2009. Based in Sydney's inner west, I help commercial and residential investors and homebuyers with their Sydney property purchases.

Since 2014, my company, Buyers Domain, also manages a growing number of commercial and residential investment properties on behalf of our clients.

As a result, our clients now come to us for the complete package – from finding and securing a suitable investment property through to managing the asset post-purchase.

Unlike traditional real estate models, we do not look at our clients' properties as a source of sales but rather an asset base, which we are keen to grow in partnership with our clients.

HOW LONG HAVE YOU BEEN A PROPERTY INVESTMENT PROFESSIONAL AND WHAT WAS YOUR PATHWAY INTO THE PROFESSION (INCL. OTHER CAREERS)?

I have been working for property investors ever since I became a buyer's agent in 2009. For the previous decade, I was a property lawyer both in London (where I'm from) and in Sydney.

Working as a property solicitor in Sydney, I found that a number of friends and colleagues would ask me loads of questions about their own property purchases from both a legal and practical perspective.

I was asked by a friend to search for a very specific property and when I found and negotiated on a property they liked, I suddenly realised that I had discovered a profession that I enjoyed even more than being a lawyer.

I had not even heard of the term "buyer's agency" and certainly didn't know of any other buyers' agents.

I therefore discovered buyer's agency completely by accident!

HOW DOES YOUR PREVIOUS CAREER AS A LAWYER HELP SERVICE YOUR CLIENTS AND ENHANCE YOUR OFFERINGS?

I have always enjoyed property and used to wonder about a career in sales.

However, the cutthroat and repetitive nature of sales never appealed to me.

As a former solicitor, I use my professional and analytical skills to find and secure the most suitable properties for my clients.

Unlike a sales agent, I consider that it is very important to point out the negatives to any property along with all the positives.

The perfect property does not exist.

I understand my role is to provide all relevant information to my clients – good and bad.

The right property will sell itself once the pros and cons have been properly assessed.

Having had a legal background very much assists me with this process, both from understanding complex legal issues that may impact upon the property and working through the entire purchase process analytically and objectively.

It also sets me apart from most other buyers' agents who previously used to work as selling agents.

HOW DID YOU FIND OUT ABOUT PIPA WHEN YOU FIRST JOINED?

I first heard about PIPA through my referral sources.

WHAT ARE SOME OF THE REASONS WHY YOU JOINED PIPA?

I wanted to be part of an industry body that has goals and objectives, specifically in relation to property investors as consumers including better regulation of the property investment industry as an asset class in its own right.

There are many property spruikers out there, including some that appear to work for buyers but actually receive a commission from sellers or developers.

These types of business give our industry a bad name.

Now, 10 years into my career, I am at a stage where I would like to "give back" and assist a profession that supported me through the early stages of my career.

I consider that PIPA will be a forum for me to do this.

In addition, I also see value in being part of a reputable network of property investment professionals from a marketing perspective.

WHAT ARE SOME OF THE MAIN CHALLENGES OF BEING A BUYERS' AGENT IN SYDNEY?

The biggest challenge, in any market, is always finding qualified clients with workable briefs and realistic budgets.

Buyers' agents are not for everyone, but our clients recognise and understand the enormous value we bring them.

The downturn of 2018 will not change overnight and in 2019, I anticipate the first six months of the year to be slow with motivated buyers thin on the ground.

The report from the Banking Royal Commission is expected to be finalised by 1 February with possible further changes to the finance sector to be implemented thereafter.

Then there's a State Election in March and a Federal Election in May.

Any of these three events on its own is likely to dampen buyer enthusiasm but having all three in the first half of the year is likely to have a significant impact.

Because Sydney is a global city with a unique geography limiting abundant supply of houses, it is often very difficult to find a suitable property and secure it at the right price.

This was particularly so in the recent boom, but it is also the case in any market.

This is one of the main reasons why buyers engage me in the first place.

I am relentless in the pursuit of a suitable property and have a unique knack of exceeding my clients' expectations.

HOW WOULD YOU LIKE PIPA TO SUPPORT YOUR BUSINESS AND ITS GROWTH?

I would like to see PIPA step up its marketing and promotion of itself and its members.

Also, PIPA being more engaged from a lobbying perspective in relation to state and national property investment matters.

WOULD YOU RECOMMEND OTHER PROPERTY INVESTMENT PROFESSIONALS BECOME MEMBERS OF PIPA? WHY?

Yes, for the same reasons I joined PIPA myself.

WHAT TYPES, OR LOCATIONS, OF INVESTMENT PROPERTIES WILL YOU BE TARGETING THIS YEAR FOR YOUR CLIENTS AND WHY?

It all depends upon the nature of the brief and the circumstances of the client.

What could be a suitable investment property for one client may not work for another.

To make recommendations here about types and locations of investment properties would be giving away trade secrets!

What I will say is that long-term, quality properties in quality locations always perform well, even in a downturn.

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

Many great things!

As stated above, I think the next six months will be a little uncertain for property buyers and particularly investors.

However, I relish these conditions to focus on expanding my network, marketing and raising the bar.

I will continue to expand my business and set the benchmark for both buyers' agency and property management.

MARK CREEDON
Director, Red Monkey Coaching

How to simply plan for business success

Did you know there is a super simple but super effective way to plan for your business success?

There is an old saying that a failure to plan is a plan to fail.

It's one of those sayings I like to describe as TBU or true but useless.

That's because that saying suggests that any plan is better than none, but the reality is that any plan, no matter how simple or how detailed, is only as good as its implementation.

In our Mastermind program we work off a simple four-step approach to planning, which enables our business owners to have a crystal-clear picture of the four main factors any plan should address:

1. **WHY**
2. **WHAT**
3. **HOW**
4. **NOW**

Understanding your why will be a fundamental aspect of planning for and successfully running your business.

WHY YOU DO WHAT YOU DO

If you are reading this and about to start a business, then take the time to conduct the exercises to discover your "why".

If you have been running your business for a while, take the time to reflect and write down your current "why" – it's probably different from the one you had when you first started, and after reading this, it may very well be different again.

When I am presenting these concepts from the stage, I usually start by asking a very simple question, "What do you want more of?"

Some people in business want more money, more time or perhaps more freedom.

So, grab a piece of paper and a pen and take a few minutes to think about what it is you want more of.

The next step I take with the audience is to pick someone who has a clear picture of what they want and ask them another simple (but a bit dastardly) question, "What will that get you?"

I then repeat that question and to each answer they give I ask again, "What will that get you?

I keep asking that question until I get an answer which truly resonates with them, one which comes from an emotional truth.

So, an initial answer of, "I want more money", may become "more time" and eventually, "I want to spend more dedicated time with my children playing while they are young" or " "I want to travel with my life partner while we are both still young enough to enjoy the pleasure of travel and experiences".

The answers sometimes take a while to come but if I keep asking then I know I will breakthrough to that emotional answer eventually.

This their true "why".

It's why they stay in business, it's probably why they started their own business in the first place, and it's why they battle through cash flow issues, staffing, legislation changes, taxation debts and all of the other wonderful pleasures which we, as business owners, get to experience.

You have to be brutal and also brutally honest.

If you can't get to the bottom of it for yourself, and after a few

minutes you are still staring at the page in front of you, get someone to ask you.

Pick a friend or a colleague but make sure it's someone who will push you hard for your true answer.

Take some time now and see what comes from the exercise.

The final answer will be the one which resonates with you the most.

You have to know this before you go any further.

Planning your business without getting this right will either lead you to a business which is really no more than a job (and potentially a job you hate) or you won't have the motivation needed to get you through the hurdles which will come.

In our Mastermind, we use a very simple one-page planning tool.

https://monkey-business.lpages.co/pipa-planning-2019/

I can't claim the credit for this plan because I learned it from Taki Moore from Million Dollar Coach and have used it ever since. Thanks Taki!

Let's have a look at the blank plan and how it works.

STARTING AT THE TOP LEFT-HAND QUARTER

This is where you look at your three-year goals.

What you write here is about the "why" we have just discussed.

Know what a goal is, and what is a wish.

Let's continue to work our way through plan.

NEXT YOU CAN MOVE ACROSS TO THE TOP RIGHT, WHICH ARE YOUR MORE SPECIFIC GOALS

In this quarter write out what you want to achieve in 12 months' time.

To have a bigger business or to have more money is not a goal, that's just a wish.

If it is more money you want, then be specific about what turnover or retained profit you want.

If you want to have more free time, then be specific.

"I want to spend more time with my family" is not a specific goal, again it's a wish or a hope.

However, saying that you want to have every second Friday off so you can have a long weekend with your kids is a goal.

If you are struggling, simply write down the first few specific goals that come to mind.

It's OK if they change over time.

THE NEXT STEP IS TO MOVE TO THE BOTTOM LEFT QUARTER

This is where we are going to get specific on the steps you need to take in order to achieve your goals.

> ***To have a bigger business or to have more money is not a goal, that's just a wish.***

If the 12-month goals were your "what" you want to achieve to get to your "why" then this quadrant is your "how".

Choose some projects that you will work on in the next 90 days which, if completed, will get you to your 12-month goals.

Here we are simply listing the projects you need to tackle in order to get to your goals.

We are diving deeper into detail and at the same time we are reducing the time frame.

Let's say that one of your 12-month goals were to spend one day a week going fishing instead of working in your business.

In that case, a project you would need to work on would be the tasks that you currently perform to see what can be delegated or removed from your schedule in order to free that day up.

Once you had that as a project, then the next one may be to train someone to take responsibility for something you currently do so that it can be effectively delegated.

Take a few minutes and have a look at your goals.

Determine three to five projects you think you can focus on in the next 90 days and write them into the project's quadrant.

Don't get caught up on which ones should come first, just make sure the projects you choose align with the 12-month goals.

In this case making a start on any aligned project is better than not starting at all, so don't overthink it.

HOW DO YOU ACHIEVE YOUR GOALS?

Finally, we can move to the last quadrant of our simple-one-page plan.

In the last quadrant you simply make a note of the tasks you are going to do on a weekly basis in order to complete the projects from the left-hand quadrant.

The true beauty lies in the fact that if you print your plan on an A4 page, the quadrants are the exact size of a rectangular post it note.

This means that you can print the one-page plan, and simply update it weekly across each 90-day period by using post it notes for your weekly actions.

Focussing on these simple action steps each week will get your projects completed.

Remember to allocate dedicated time in your calendar to perform the actions or you will get to the end of the week and not have achieved the tasks.

ALL THAT IS LEFT TO DO NOW IS REPEAT THE PROCESS EVERY 90 DAYS.

By the time the 12 months is up, you should have advanced your business to exactly where you wanted it to be.

> ***Make a note of the tasks you are going to do on a weekly basis.***

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.

THE NEWDAILY

2018 was the housing market's worst year in a decade, but that's no cause for panic

National home values fell by 2.3 per cent over the December quarter, the largest quarter on quarter decline since 2008.

http://bit.ly/PIPA-013-15A

nestegg.com.au

Investors to be left with 'luck of the draw' in broker regulation

Property investors will lose a key partner in strategy and experience, and end up paying more, should the recommendations to change mortgage broker remuneration go through, experts fear.

http://bit.ly/PIPA-013-15B

Lifestyle

Stay or sell? The experts' recommendation following the royal commission

It might seem like there's never the right time to buy or sell your property, but this notion is especially relevant, given the recent findings from the banking royal commission.

http://bit.ly/PIPA-013-15C

new members

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

CORPORATE MEMBERS

- WAYNE JESSUP
  The Property Bloke
- NICOLA MCDOUGALL & KIERAN CLAIR
  Bricks & Mortar Media

INDIVIDUAL MEMBERS

- STEPHEN CATTERALL
  Property Advice Solutions
- ANDY TRAN
  Your Future First

QPIA

- WAYNE JESSUP
  The Property Bloke

PETER MARTIN
Section Editor, Business and Economy, The Conversation

Banking Royal Commission: no commissions, no exemptions, no fees without permission

Treasurer Josh Frydenberg was glossing over history when he said the final report of the banking royal commission "endorsed many of the themes and individual reforms the government is currently pursuing".

In fact, on coming to office in late 2013, his government – through Finance Minister Mathias Cormann - did the opposite.

Instead of extending provisions in the law that financial service providers act in the "best interests" of their clients, it tried to remove them, pressing Senate independents to have them excised from the at-the-time unimplemented Future of Financial Advice Act.

It argued there would be greater certainty if advisers were merely required to fulfill a number of specific requirements rather than to act in the overall best interests of their clients.

It's a checklist approach Justice Kenneth Hayne dismisses, saying it has encouraged advisers to pursue a "good enough" outcome "instead of the best interests of the relevant clients or members".

"The more complicated the law, the harder it is to see unifying and informing principles and purposes," the report says. "Exceptions and limitations encourage literal application and focusing on boundary-marking and categorisation."

What's important is that the intent of the law is met, "rather than merely its terms complied with".

Hayne wants laws rewritten to draw explicit connections between their requirements and what they are trying to achieve.

Such rewriting will make it clear that "exceptions and carve outs like grandfathered commissions constitute a departure from applying the relevant fundamental norm".

The Coalition fought hard to allow financial advisers to continue to receive some grandfathered commissions – commissions their customers were signed up to before laws outlawing commissions came into place.

Hayne wants all grandfathering to go "as soon as is reasonably practicable".

Frydenberg has agreed. From January 1, 2021 all grandfathering will go, and any previously grandfathered payments to advisers from clients accounts will be handed back to clients where they can reasonably be identified.

Ongoing fees taken from clients accounts will need to be specifically reauthorised each year, a proposal neither the Coalition nor Labor put forward in negotiations over the Future of Financial Advice Act, settling on reauthorisation every two years in order to avoid paperwork.

Frydenberg has accepted the recommendation, without a start date.

Hayne wants all commissions to mortgage brokers banned so that the borrower, not the lender, pays the broker a fee.

The Royal Commissioner wants the changes made over a period of two or three years, first by banning so-called annual trailing commissions that last the length of the loans, and then by banning upfront commissions.

Frydenberg will ban trailing commissions from July 1, 2020 and will ask the Council of Financial Regulators and the Australian Competition and Consumer Commission to review in three years' time the implications of moving to full consumer-pays.

Hayne's point is that buyers of financial products of all types often assume the person standing between them and the provider is acting in their interests. They need not be when they are being paid by the provider.

> *The interests of client, intermediary and provider of a product or service are not only different, they are opposed.*
>
> *An intermediary who seeks to stand in "more than one canoe" cannot. Duty (to client) and (self) interest pull in opposite directions.*

Hayne's three key themes are now government policy:

- no conflicted remuneration
- no exemptions, including grandfathered arrangements
- explicit consent for payments.

Financial industry laws and regulations will apply more broadly than they have. Funeral insurance will no longer be exempted. Car dealers will face a limit on the fee they can get for selling add-on insurance.

And retailers won't be able to sell add-on insurance at the same time as the products themselves. Frydenberg said that people buying mobile phones were being sold screen insurance that cost more than the replacement of the screens.

"Hawking", unsolicited phone calls and pitches for superannuation and insurance and other products, will be prohibited. Lenders to farmers won't be able to charge high default interest rates during droughts or when there is no realistic prospect of recovering the money.

Banks won't be able to offer overdrafts on basic accounts without the formal approval of the accounts' owners, they won't be able to charge dishonour fees on basic accounts, they will have to value agricultural land used as security for loans independently of the people who decide whether to grant the loans.

Superannuation fund trustees won't be able to work for other parts of the conglomerate that owns the fund giving them a conflict of interest, and trustees and directors will be subject to civil penalties if they fail to act in the fund members' best interests.

Each Australian will be defaulted into ("stapled" onto) only one superannuation account once at the beginning of their working life instead of into several as they change jobs as is required by awards and industrial agreements. The Productivity Commission estimated these multiple accounts cost super fund members A$2.6 billion a year in unnecessary fees.

Australia's much-criticised "twin peaks" model of regulation shared between the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority, will stay, although they will be subject to a new independent oversight body that will report on their performance every two years. They will also need to prepare and maintain a joint co-operation memorandum.

In any investigation ASIC will have to have as a starting point the question of whether a case should be taken to court. Infringement notices should mainly be reserved for administrative rather than deliberate failings.

Hayne says too often, banks and other financial services entities that broke the law were not properly held to account.

Misconduct will be deterred only if entities believe that misconduct will be detected, denounced and justly punished.

Misconduct, especially misconduct that yields profit, is not deterred by requiring those who are found to have done wrong to do no more than pay compensation. And wrongdoing is not denounced by issuing a media release.

He says in almost every case, bad conduct was driven not only by the firm's pursuit of profit but also by individuals' pursuit of gain.

> *Providing a service to customers was relegated to second place. Sales became all important. Those who dealt with customers became sellers. And the confusion of roles extended well beyond front line service staff. Advisers became sellers and sellers became advisers.*
>
> *Rewarding misconduct is wrong. Yet incentive, bonus and commission schemes throughout the financial services industry have measured sales and profit, but not compliance with the law and proper standards. Rewards have been paid regardless of whether the person rewarded should have done what they did.*

Frydenberg says he is taking action on all 76 recommendations.

He'll set up an industry-funded compensation scheme able to payout over misconduct over the past ten years.

And 24 specific acts of misconduct have been referred to authorities, covering every big financial firm other than Westpac.

What's ahead for property markets in 2019?

With Sydney and Melbourne hogging all the headlines, many buyers believe the property sky is falling.

NICOLA MCDOUGALL
Editor, PIPA Adviser

However, property investment professionals know that there always sliver linings, and are prepared to find the best locations for their client.

PIPA Chairman Peter Koulizos said that price falls would continue in Sydney and Melbourne this year, but there may be some certain types of properties that are worthy of consideration, like character dwellings in prime locations.

Canberra, Darwin and Hobart were possibilities, but the first two capital cities had issues that might reduce investment opportunities, he said.

"Hobart is just coming off a big upswing in price that has lasted about two years and I can see price increases decelerating in 2019," he said.

"Darwin is still being punished as a result of the resources bust so I can't see much good property news coming out of this city during 2019.

"Canberra could be an option but with a Federal Election coming up, this creates uncertainty in the economy and market place."

Mr Koulizos said the pick of the capital city bunch were Adelaide and Brisbane, which had both underperformed since the Global Financial Crisis.

However, both locations had experienced only minimal upward price movements of late.

"My suggestion is that you focus on established property, the older the better, in areas close to the CBD – in Adelaide, seaside suburbs are also worth a serious look. Consider the gentrifying areas, which are most commonly found close to the CBD," he said.

"Don't forget regional areas because often after a capital city does well, the ripple effect benefits these locations.

"If you are interested in buying lower priced property, which can be found in regional areas, focus on locations close to Sydney and Melbourne such as the Central Coast of NSW as well as Ballarat and Bendigo in Victoria."

Propertyology Head of Research Simon Pressley is one of the nation's strongest advocates for investing in regional locations and believes those markets are already kicking goals.

In fact, a plethora of regional locations have positive outlooks this year, he said.

"The evidence points towards tightening vacancy rates and housing supply pipelines with below-average volumes, while demand will be driven by some particularly exciting employment trends and affordable housing," Mr Pressley said.

"In no particular order, the strongest markets in 2019 will be regional locations in NSW (inland), Tasmania and Victoria.

"During the back half of 2018, we observed recovery signs in several locations in regional Queensland and Western Australia."

Mr Pressley also believed that growth cycles for Adelaide and Brisbane must be around the corner, he forecast that Hobart will be the best performing capital city this year.

He said unhelpful noise about the state of the market, elections, and the royal commission should be ignored because of the myriad investment opportunities currently available.

"We also expect that sanity will soon prevail with credit supply," he said.

"Property market fundamentals in large parts of Australia are better right now than any time post-GFC.

"In fact, Propertyology believes that many locations have underlying conditions which are conducive of market booms."

Property Investors Council of Australia (PICA) Chairman Ben Kingsley said conjecture about potential changes to negative gearing and Capital Gains Tax policies were impacting the market.

He said the Australian Labor Party had a responsibility to outline the implementation timeline of the proposed taxation restrictions if they were to win power at the upcoming Federal Election.

He said recent media reports had indicated that the ALP may be flip-flopping on a policy that has been the cornerstone of its campaign for three years – no doubt due to falling property prices in many locations around Australia.

"Restricting negative gearing to new property was always a ridiculous so-called 'solution' to Sydney's strong price growth, which has now well and truly dissipated because it was merely a sign of the peak of a market cycle," Mr Kingsley said.

"If the policy was absurd back then, it's even more so now, with the national economy flat-lining due to a number of poor indicators including significant property price falls in our two biggest cities.

"Labor supposedly represents everyday Australians, yet the policy is likely to see the wealth of their constituents nose-dive even more because of the negative impact it will have on the market."

Mr Kingsley called on the ALP to come clean on its timeline for changing negative gearing because there was too much at stake to keep the public in the dark.

"The majority of every Australian's wealth is in their property so having the threat of their home's value falling even further is no doubt part of the reason why our economy is in the doldrums," he said.

"It's clear that people are fearful about these dangerous changes – both property owners and investors alike – so if Federal Labor is thinking about introducing these measures as early as July this year, buyers need to have enough time to organise their finances and come to the market in the next few months to meet this deadline.

"With Labor tipped to win the Federal Election, the uncertainty is affecting the Australian property market and the broader economy, which is why Bill Shorten should announce the party's intensions today – there is no reason not to tell us their plans as the policy was formulated years ago."

NERIDA CONISBEE
Chief Economist, REA Group

2019's property outlook – how can you take advantage?

For the next quarter, the outlook for the housing market has good news for those looking to invest in Sydney, Melbourne and Perth, and those looking to sell in Brisbane and Adelaide.

Nationally, the market has been hit by the restrictions in finance caused by the Financial Services Royal Commission and the upcoming Federal Election, specifically changes to negative gearing and capital gains tax concessions.

A change in sentiment, with a pullback in buyer behaviour has also had an effect, particularly in Melbourne and Sydney.

However, with no rise in unemployment, there's unlikely to be a market crash in the near future, despite plenty of media coverage suggesting otherwise.

STATE BY STATE

In Sydney, prices have fallen 6.7 per cent from peak, with the middle-price suburbs the hardest hit (though the median house price still sits comfortably ahead of all other state capitals). Premium suburbs, such as Manly and Paddington, continue to perform well, as are the lower-cost suburbs, such as Kingswood and Richmond.

This news is a welcome relief for those looking to add to their portfolio, after 10 years of unsustainable growth.

It also means residential agents should be keeping an eye out for possible developments, especially in lower-cost suburbs, as interest grows amongst first home buyers.

Encouraged by what many are calling the "Hemsworth/Pataky phenomenon", idyllic Byron Bay continues to perform well, with increased buyer activity on realestate.com.au and positive price growth in the trendy coastal hub.

Meanwhile, in Melbourne, there has been an overall 2.5 per cent decline from peak, a result cushioned by continuing high demand.

The inner west of Melbourne has seen prices rise by 1.6 per cent, with suburbs like Yarraville, Footscray and Melton benefitting.

Regional Victoria is seeing some of the strongest growth across the nation, with the likes of Geelong, Ballarat, Bendigo and Gippsland all tracking well.

In Brisbane, the market continues to defy the odds – despite the over-development of apartments and exposure to the same lending and election pressures, prices remain flat.

Adelaide is also going against the grain, experiencing price growth over the last 12 months.

There are now 23 suburbs with medians over $1 million, and Medindle has become the first suburb in the state to hit $2 million.

> ***There's unlikely to be a market crash in the near future.***

Nerida is one of Australia's leading property experts. She provides regular market commentary to a wide range of Australian media outlets across digital, print, television and radio. She also contributes content for REA Group's websites including realestate.com.au and realcommercial.com.au.

> ***The Adelaide Hills is experiencing particular success.***

The Adelaide Hills is experiencing particular success, with three of its suburbs sitting in the list of the nation's most popular – Crafers West, Aldgate and Belair.

Canberra is expected to benefit most from the upcoming election – it is widely understood that there will be a change in government, meaning new jobs and a turnover in property.

In Hobart, it is expected to hit double-digit growth in 2019, encouraged by the popularity of Battery Point, South Hobart and Carlton.

Darwin and Perth have been worst hit by the Commission, with the restriction of finance causing unstable markets.

That said, there have been elevated levels of rental demand and job growth, meaning that there is potential once the election is over and lending eases up.

For those looking to invest in WA, these developments are a plus – there are set to be some bargains on the market over the next six months.

With more young professionals looking west, property investors would do well to keep an eye out on emerging off-the-plan properties.

TAKING ADVANTAGE OF THE TRENDS

These trends mean that initiatives like realestate.com.au's Marketplace are set to become even more important as the year goes on.

The digital tool, powered by Property Platform, links those looking to sell property, such as developers, builders and project marketers, with those who can sell them – licensed selling agents and property investment professionals.

In cities such as Sydney and Melbourne, where the prices are slowly dropping to be in reach, the platform offers an opportunity for agents to locate off-the-plan properties for interested buyers.

It can also assist developers in up and coming areas link up with agents looking to take advantage of the rise in popularity.

As it stands, there are more than 220 projects available all around Australia, with the uptake only growing.

With no cost to sign up, it's a fantastic way for property professionals to discover new projects and connect their interested buyers with the home of their dreams.

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