PIPA ADVISER

ISSUE #15

For members of the Property Investment Professionals of Australia

HOW OUR INDUSTRY HELPED RETURN A PRIME MINISTER

PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA

PIPA *mission:*

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

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

PIPA BOARD CHAIRMAN
Peter Koulizos

PIPA BOARD OF DIRECTORS
Margaret Lomas, Phillip Tarrant, Steve Waters, Nicola McDougall, Paul Glossop, Kylie Davis, Richard Crabb and Geoff White.

CONTACT US
PO Box 5400, Chittaway Bay
NSW 2261
T 02 4302 1624
F 02 4353 3506

MEMBERSHIP ENQUIRES
T 0428 809 696
E membership@pipa.asn.au

EDITORS
Nicola McDougall/Kieran Clair
E enquiry@bricksandmortarmedia.com.au

GRAPHIC DESIGNER
Paul Vesey-Brown
E pveseybrown@gmail.com

contents

PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA

Industry lobbying helps election win

Welcome to the latest issue of the PIPA Adviser. If anyone had asked me a few months ago who I thought would win the election, I would have said Labor. Most people thought that.

As we have learned, even if people thought Labor would win, that didn't translate into an avalanche of votes.

Indeed, the "quiet Australians" to quote a term used by the prime minister, voted to return Scott Morrison and the Coalition Government.

As you know, PIPA was involved in the national industry campaign against Labor's housing taxation policies, which ultimately reached millions of Australians – thanks to the support of our members who distributed collateral to their databases.

While we may never know how much of an impact the campaign had on the election result, it would be fair to say that the solidarity of our industry helped to protect the wealth of all Australians.

You can read more about the campaign and what is next for PIPA's lobbying efforts in this edition's cover story.

With the election now behind us, there are early signs that markets are starting to respond to higher confidence levels amongst buyers and investors.

Not only can they now buy with the knowledge that the housing taxation status quo has been retained, the lending landscape is finally improving as well.

As I'm sure you're aware, APRA announced recently that it would allow lenders to reduce their interest rate serviceability calculations to a more reasonable level.

While the move is, of course, welcomed, it was overdue given variable interest rates have not been seven per cent for many years.

The announcement also predated the Reserve Bank's decision in early June and early July to reduce the cash rate by 25 basis points to 1.0 per cent.

It was pleasing to see lenders passing on the majority of the reduction to homeowners quickly.

What was even more pleasing was the decision by some lenders to reduce investment loans, including interest-only, by a greater figure than the cash rate cut.

In fact, some lenders reduced investment loans by 35 basis points, which will claw back some of the increases that were forced upon investors in recent years.

Last but certainly not least, it was wonderful to see so many members at our recent 2019 PIPA Sydney breakfast seminar.

I'm happy to also announce that the Melbourne breakfast has now been set for Thursday 31 October, with more details to come soon.

PETER KOULIZOS
PIPA CHAIRMAN

#1 for New Homes

this is the place

realestate.com.au

How our industry helped return a prime minister

NICOLA MCDOUGALL
Editor, PIPA Adviser

It's fair to say that right up until election night, most people in the property sector thought Labor had it in the bag.

However, there were signs in the REIA industry campaign during that last week – of which PIPA and PICA were active members – that all was not as it seemed with a spike in negative comments on social media.

The industry campaign, which ran for the entirety of the election campaign, was a joint lobbying effort from major real estate franchise groups as well as industry associations.

During weekly teleconferences, each representative outlined their recent lobbying efforts as well as what they had planned for the next week.

Traction in the first week of the election campaign was strong, however, the timing of Easter and Anzac Day stymied the industry's momentum, which took until the final week of the election to regain.

PIPA AMONGST POWERBROKERS

From the start of this year, PIPA had made strong inroads with the Federal Government and with Treasurer Josh Frydenberg and Senator Zed Seselja in particular.

In a significant milestone, PIPA chairman Peter Koulizos attended a round table housing taxation discussion with other industry experts at Parliament House in Canberra in February following lobbying efforts by the association.

PIPA board members also represented the industry at a number of other housing taxation summits hosted by Senator Seselja held across the country during the election campaign.

The association also went on the front foot in the media, releasing a number of press releases on the potential impacts of Labor's negative gearing and Capital Gains Tax policies.

These releases focused on PIPA research which showed that Labor would lose about $32 billion in taxation revenue from a dramatic reduction in the number of investors as well as the potential for the policy to encourage more spruikers in the market.

PIPA's active lobbying in the media during the election campaign reached an impressive potential audience of nearly two million Australians.

While we may never know how much of an impact the industry campaign had on the election result, there is no doubt that it reached a huge proportion of voters.

REIA campaign organiser, Stewart Bunn of First National, said that prior to the combined industry efforts, millions of Australians were unaware of the proposal to restrict negative gearing and to double capital gains tax – or what the impacts of such a change could mean for the economy.

"As a result of the REIA social media campaign, more than 10.5 million Australians were informed of the ALP's proposal as well as its potential impacts," he said.

"More still were reached by agency customer database communications. Clearly, this played an influential role in the election outcome.

"As was to be expected, taking a position on property taxation policy attracted some

> **Classifying all landlords as 'greedy' also did the Opposition no favours.**

adverse commentary, however, the experience from the 2016 campaign is that such impacts are short-lived."

WORKING TOGETHER

A few days after the election, PIPA took the opportunity to start lobbying for the creation of legislation in the provision of property investment advice.

PIPA chairman Peter Koulizos said the association would seek to sit down with government representatives in coming months to discuss much-needed regulation in the property investment advice space.

"PIPA was formed by industry practitioners with the objective of representing and raising the professional standards of all operators involved in property investment," he said.

"One of the association's long-standing aims has been securing regulation to drive out spruikers from our sector and to protect consumers from dodgy operators.

"We look forward to discussing this important issue with the government in due course."

Mr Koulizos said the election result was a sign that all Australians valued property ownership strongly and were prepared to vote accordingly to protect their most expensive asset.

"Labor's policy to restrict negative gearing and reduce the concession on Capital Gains Tax was always poor, but especially so in a mostly underwhelming property market environment," Mr Koulizos said.

"Creating an us and them campaign by classifying all landlords as 'greedy' also did the Opposition no favours when the vast majority of property investors only own one property and are just trying to improve their financial futures."

Mr Koulizos said he was also proud of the wider real estate sector who had joined together to protect the jobs of hundreds of thousands of people employed either directly or indirectly in the industry.

"The sector also understood the potential negative impact of Labor's housing taxation policies on the market as well as on the wealth of everyday Australians," he said.

NEXT STEPS

The announcement of key portfolio positions in the new Morrison Government recently included a Minister for Housing under the Treasury umbrella.

According to REIA president Adrian Kelly, the appointment of Michael Sukkar to the role, as well as Assistant Treasurer, should not be underestimated.

"REIA has recommended to government through the annual pre-budget process for a number of years that a dedicated Minister for Housing be appointed as recognition of the importance that the property sector plays in the economy," Mr Kelly said.

"The placement within the Treasury, the government's major economic department and source of taxation advice to government, acknowledges its importance and integration within the Australian economy."

Mr Kelly said the REIA had also written to the new Leader of the Opposition, Anthony Albanese, and congratulated him on his appointment.

"We are pleased that the Opposition has committed to reviewing the policies it took to the election and will work with them in addressing the complex issue of housing affordability," he said.

"REIA will be working with both the government and the opposition to develop practical policies for the housing sector over the next electoral cycle."

Together with sister association, PICA, and other industry groups, PIPA will seek a meeting with the new Housing Minister in coming months and, as always, will keep members informed of our progress.

PIPA

marketupdate

KIERAN CLAIR
Editor, PIPA Adviser

Sunshine State set to (finally) shine?

Investors have been eyeing off Queensland for a few years now, but on a statistical level its results have been less than stellar.

Its capital, Brisbane, has even been the number one pick for investment potential in the PIPA Investor Sentiment Survey for a few years running.

Yet, according to the latest CoreLogic figures, its median dwelling price fell 2.4 per cent over the past 12 months.

However, there is no denying that affordable property prices, record interstate migration, and an embarrassment of major infrastructure projects may soon see the Sunshine State start to finally shine.

Among the plethora of major projects under way in Brisbane itself, the game changers are considered to be the $3.6 billion Queen's Wharf development which aims to attract nearly 1.4 million extra visitors to Brisbane each year after it opens in 2022.

No doubt, most of those visitors will land at Brisbane Airport's second runway, which is due to be operational by mid next year, while others might come via the city's new international cruise terminal or locally from the Cross River Rail.

Real Estate Institute of Queensland CEO Antonia Mercorella said the future was bright for the state's property sector.

"The Queensland residential property market has historically delivered consistent growth, which has put us in an enviable position," she said.

"Despite a nationwide trough, the property market in Queensland remains affordable and continues to show signs of sustainable growth when compared to its southern counterparts.

"With the Federal Election done and dusted and the threat to negative gearing changes removed, consumer confidence has spiked."

REASSURING MARKET SIGNS

According to the REIQ's Queensland Market Monitor for the March quarter, the state's major property markets held their own during trying economic times over the past year.

The Brisbane LGA saw its annual median house price rise 1.5 per cent to March 2019, reaching $680,000, which placed its annual gain below Ipswich (1.8 per cent), Logan (1.3 per cent) and Moreton Bay (2.5 per cent).

The Greater Brisbane house market has been relatively stable throughout the past 1 months although – as should be expected across an area that encompasses the LGAs of Brisbane, Ipswich,

> ## *The property market in Queensland remains affordable.*

Logan, Moreton Bay and Redland – some locations performed better than others.

The Greater Brisbane house market stayed reasonably buoyant on the whole, with the region seeing growth of 1.9 per cent for the year.

According to QMM, individual results across all the jurisdictions remained below two per cent, except for Moreton Bay which saw house prices rise by 2.5 per cent over the year.

The unit and townhouse sector across Greater Brisbane, however, had a less convincing year with the markets generally underperforming, according to the analysis.

In Brisbane, the annual median unit price fell two per cent to March, confirming this sector is bringing the overall results back down to a "steady" position.

Rental markets in the southeast, and elsewhere, are mostly performing well with the Brisbane vacancy rate sitting at a healthy 2.5 per cent in March, according to the QMM.

"This has continued a general steady tightening of vacancies since late 2016 when the rate reached as high as four per cent," Ms Mercorella said.

"The number of new rental units pitched specifically toward tenants within close proximity of CBD remains high. While they continue to be absorbed, any increase in rents will likely be long-term and gradual.

"While there has been talk of oversupply in investment-grade attached housing, this does not seem to have extended to the outer suburbs where demand for quality rental accommodation remains sound."

SOLID MARKET FUNDAMENTALS

While Sydney and Melbourne were competing with each other to see who would be home to the country's most expensive real estate a few years back, Brisbane's market was quietly ticking away in the background.

Fast forward to 2019 and the property price chasm between those southern capitals and the Sunshine State is motivating plenty of people to make the most north.

According to the latest Australian Bureau of Statistics data, Queensland had net interstate migration of 24,700 people in the year ending June 2018 – a figure that is expected to be dwarfed when the next annual figures are released.

Interstate migration into Queensland is already the highest for more than 10 years.

HOUSE MARKET (<2400M²)

Quarter median price ↑ **$474,000**

Annual median price ↑ **$480,000**

Annual volume of sales ↓ **53,420**

Annual median price 5yrs ago ↑ **$415,000**

UNIT MARKET

Quarter median price ↓ **$385,000**

Annual median price ↓ **$400,000**

Annual volume of sales ↓ **30,653**

Annual median price 5 yrs ago ↑ **$372,130**

SOURCE: REIQ

*market*update

Right Property Group Director Victor Kumar said comparing Brisbane's market to Sydney and Melbourne was a mistake for anyone looking for a solid investment location.

"Queensland hasn't delivered as most people expected it to deliver," Mr Kumar said.

"To a degree, we were spoiled by the meteoric rise from Melbourne and Sydney and people expected the same of Brisbane.

"Traditionally, Queensland has been a slower growing market compared to Melbourne and Sydney and, unfortunately, we seem to judge everything by how those two cities go and then expect the same to happen elsewhere."

Mr Kumar said the state's robust major infrastructure program, as well as myriad Priority Development Areas were just two signs of sound market fundamentals.

Couple with rezoning and affordable property prices, the market was now buoyant, he said.

"Where else in all of metropolitan Australia can you get a 1,000 square metre block with a house on it, less than 45 minutes from the CBD, which has a price that has a four in front it and has a five per cent yield?" he said.

He said unlike other locations which usually required buyers to enter and exit because of price volatility, Queensland consistently offered investment opportunities.

"I've been buying in Brisbane since 2002. The market changed but the fundamentals have still remained," Mr Kumar said.

"The volume may have increased or decreased depending on where the market was but, personally, it's been a market that I've been consistently investing in.

"When people say that there is no growth in Queensland, it depends on what you bought."

Outside of southeast Queensland, the Sunshine Coast region, in particular Noosa, was the strongest major market over the year ending March, according to the QMM.

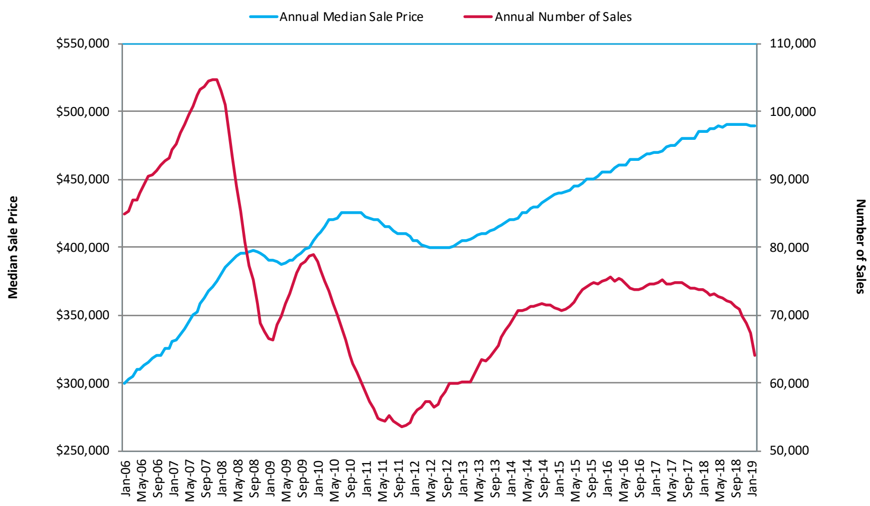
Its annual median house price grew 8.7 percent for the year, reaching $750,000 in March 2019 despite an approximate 20 per cent fall in sales.

This equates to an increase in value of $60,000 over a 12-month period – an equivalent of approximately $5,000 per month.

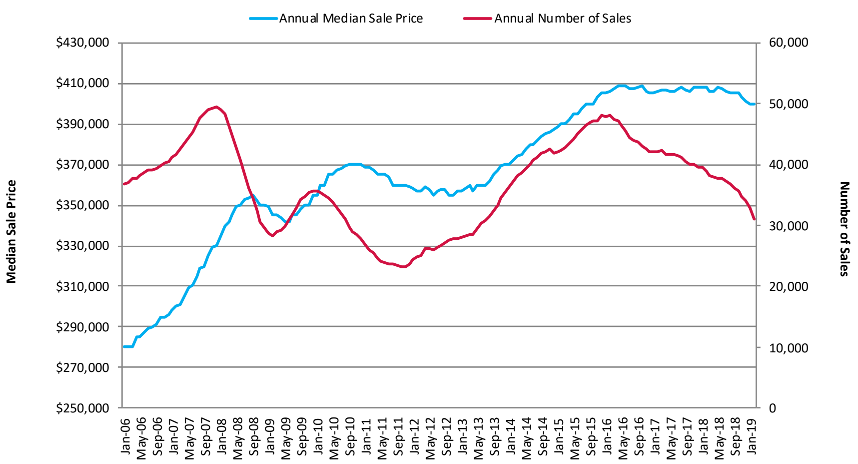
The house market in Mackay again performed well to round out the March quarter which has helped it post annual returns of one per cent from March 2018 to March 2019.

Mackay was the best performing regional area featured in the QMM for the year and saw sales number increase by 1.9 per cent for the year to March. ◭

QUEENSLAND HOUSE MARKET



QUEENSLAND UNIT MARKET



SOURCE: REIQ

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. For more articles [visit the PIPA website.]

mortgagebusiness

NZ government scraps capital gains tax

The New Zealand government has announced that it would not proceed with the proposal to impose a capital gains tax due to lack of public support.

Read the article

mortgagebusiness

Election result a 'repudiation' of 'risky' housing reforms

The property industry has welcomed the re-election of the Coalition government, declaring that concerns over the opposition's proposed changes to negative gearing and the capital gains tax were key drivers of the result.

Read the article

THE NEWDAILY

Real estate lobbyists help deliver win for Coalition

Adrian Kelly, the president of the Real Estate Institute of Australia, might not be as well known as the Prime Minister, but he's the man behind the effective campaign that shredded Labor's negative gearing policies.

Read the article

your investment property

Negative Gearing, CGT Remain Unchanged

Making massive changes to negative gearing and Capital Gains Tax was a key platform for the Australian Labor Party, which many expected to win at the polls on May 18.

Read the article

new members

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

CORPORATE MEMBERS

- RICHARD SHEPPARD, *inSynergy Property Wealth Advisory*

pipa profile

***Kathy Blahut** started her working life as a high school economics teacher but her passion for property would see her transition into teaching adults how to create wealth via property investment.*

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

My original career path was in teaching. I completed a full-time three-year Diploma of Teaching in Social Sciences and began teaching high school students. While teaching full time, I studied for five years part-time to complete my Bachelor of Economics degree, graduating a week before my second child was born!

I was passionate about my subject and loved passing that on to my students. I always worked on the premise that good discipline was a result of good teaching – organisation, preparation, enthusiasm, reliability and empathy.

We achieved great academic results together, but most rewarding was the appreciation of the students, often expressed years later, for what they were taught about the power of hard work, self-determination, aiming high, honesty, integrity and empathy, in all you do and in how you engage others.

I also taught junior history and commerce. Not surprisingly, discipline and self-control on their part was more of an issue from day to day, so the ability to "delay gratification" was a strong theme in some of my more challenging classrooms.

I met a young man I taught as a 14-year-old whose behaviour at the time was less than stellar and he told me that he still remembers what he learned about delaying gratification and that it had saved him from making a couple of silly mistakes. That's the best result ever.

It's interesting how I am still trying to encourage people to delay immediate gratification, sacrifice a little, be disciplined and aim high for the future.

There are no shortcuts in life. Reward comes to those who educate themselves, plan, delay some immediate gratification, practice self-discipline (monetary and other ways) and embrace self-determination.

After 19 years of teaching, I took long service leave and thought about what else I might be able to do. I was looking for a career that rewarded effort and performance (no matter how good a teacher you were, you were paid the same).

I did a thorough online vocational guidance test and it came back telling me I should be teacher of economics and commerce! Not very helpful but it also said that I believed strongly in empowering people, that I was caring and empathetic, and the values of honesty and integrity were important to me.

So, back at square one. I thought about what I was interested in and thought – housing! I loved designs and décor and seeing what people had done with their homes.

After being knocked back about 10 times (too qualified/no experience, etc), I persisted and finally got called by a sales manager who said, "I love employing teachers because they are usually well organized and can communicate".

There was no looking back, I was very successful in terms of sales results and quickly got promoted, managing a team and centre.

Even though my husband and I had paid off our first modest home years before, we had just traded up to better houses, but it had never occurred to me that we could invest. We both had come from humble backgrounds and no one had ever modelled that for us.

I saw my colleagues investing and I thought, "We could do that!" The journey began with one house and land package that we still own today 16 years later.

Unfortunately, after four years, that company left NSW and I had to look for another job. I applied for a position with an investment company and once again took to it like "a duck to water" and became an investment specialist and advocate.

The contract housing experience equipped me with knowledge, but investment and the possibilities it provides to change lives became my mission. I strongly believe that abundance isn't finite, opportunities exist but we need honest, ethical and qualified people as guides.

My only regret is that I didn't start earlier. Time in the market is more important than timing and so the earlier the better.

It became clear to me and several of my likeminded colleagues that the restrictive "stock list approach" to dealing with individuals was not good enough.

I left the investment company (it had also undergone a takeover and changed its direction), undertook further training and became a fully independent, qualified, investment adviser. It turned the focus from property sales to bespoke client advice.

CAN YOU PLEASE TELL US MORE ABOUT YOUR BUSINESS?

Investment Property PA (the PA is professional advice and personal assistance) is an independent investment property advisory.

It is a member of the ASPIRE Network, a community of like-minded, highly qualified professionals who want to lift the bar in the investment property space. The requirements for being an ASPIRE member are such that we are all able to hold PI for the advice we give.

Investment PA's code of conduct is, and always will be, based on the principles of honesty, integrity and transparency. It is never a "sale at any cost".

I have been very successful in all my positions and I think it comes down to the fact that my goal is help people get ahead. I remind myself every day that today my job is to help people, if that results in sales and monetary reward then that's worthwhile. Success is a result of service.

HOW LONG HAVE YOU BEEN A QPIA?

I completed the course requirements and met the criteria a few months ago.

HOW DID YOU FIND OUT ABOUT PIPA & QPIA?

ASPIRE's managing director Richard Crabb is on the board of PIPA and suggested that we should all add that extra level of education, certification, and confidence for our clients.

WHAT WERE YOUR MAIN REASONS FOR BECOMING A QPIA?

Knowing that we meet the standards expected by such an organization tells people we are serious about doing our part to improve the quality of advice, the calibre of advisers and the outcomes for our clients.

Property investment is an unregulated space at this point in time and we believe that it shouldn't be.

Education is a natural barrier to entry – the higher the standard required, the fewer rogue operators will be able to survive and tarnish the reputations of the honest and ethical advisers.

PIPA provides education and updates on the state of the markets. It is a mentor, and guide and community of people wanting the best for all stakeholders.

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

I think for me it was a natural progression. I've been advising people all my career, as a teacher and as an investment property salesperson.

I was always client focused and so without knowing it, probably, I was always trying to do the right thing by each and every client and not adopting a blanket approach and one-size-fits-all methodology.

While I would eventually opt for a different model of property advice and sales, the company I worked for did model honest and ethical behaviour from the top, so the foundation was solid.

I think if you do what you believe in a lot of the effort is a labour of love.

HOW DOES THE QPIA SUPPORT YOUR CAREER?

It is a testimony to the serious commitment that I and other ASPIRE advisers have to raising the benchmark in the investment property space.

It provides confidence for your clients that this is your career and passion, that you have invested time and energy and money into becoming the best qualified you can be.

As I mentioned above the support is also tangible, the education, ideas and sharing are helpful and encouraging.

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

Yes. If you are serious about being the best you can be, then be part of an organization that mentors, educates and supports those of us who are.

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

To keep on providing the best service that I can. We live in the lucky country – opportunities exist, we can rely on the rule of law to protect our rights and encourages us to get ahead in life.

I don't think we do enough to teach young people to not only work for their money but to make it work for them. There is a social responsibility in getting people to prepare for the future – the unviability of long-term provision of pensions as the population ages makes self-help an important goal.

The Reserve Bank will cut rates again and again, until we lift spending and push up prices

PETER MARTIN
Visiting Fellow, Crawford School of Public Policy, Australian National University

The Reserve Bank cut interest rates on Tuesday because we aren't spending or pushing up prices at anything like the rate it would like. And things are even worse than it might have realised.

As the board met in Martin Place in Sydney, in Canberra at 11.30 am the Bureau of Statistics released details of retail spending in April, one month beyond the March quarter figures the bank was using to make its decision.

They show the dollars spent in shops fell in April, slipping 0.1%, notwithstanding weakly growing prices and a more strongly growing population.

The March quarter figures the board was looking at were adjusted for prices. They show that the volume of goods and services bought, but not the amount paid for them, fell in seasonally adjusted terms during the March quarter.

Adjusted for population, the volume bought would have fallen further.

WE'LL KNOW MORE ON WEDNESDAY

The Bureau of Statistics will release population-adjusted figures as part of the national accounts on Wednesday.

The figures for the September quarter show that income and spending per person barely grew. The figures for the December quarter show income and spending per person fell.

A second fall in the March quarter will mean two in a row – what some people call a per capita recession.

Even unadjusted for population, economic growth is dismal.

During the September and December quarters the economy grew just 0.3% and 0.2% – an annualised rate of just 1%.

That's well short of the 2.75% the treasury believes we are capable of, and the lower than normal 2.25% it has forecast for the year to June.

We've been doing it by ourselves. As Reserve Bank Governor Philip Lowe said in announcing the rates decision on Tuesday:

> *The main domestic uncertainty continues to be the outlook for household consumption, which is being affected by a protracted period of low income growth and declining housing prices.*

The bank wants both inflation and employment higher, and it wants us to spend more in order to do it. Lower rates should help, although not for everybody.

Lowe acknowledged this in a speech to a Sydney business audience on Tuesday night, but he said households paid two dollars in interest for every one dollar of interest they received. So while rate cuts hurt savers, they benefit borrowers by more, and over time should benefit all households by boosting the economy. They also drive the dollar lower, making Australian businesses more competitive.

Tuesday's cut should free up an extra A$60 a month for a typical mortgage holder. Another one will free up a total of A$120.

It's not much, and there's doubt about whether it will do much, but interest rates are about the only tool the Reserve Bank has.

It is required by its agreement with the government to aim for an inflation rate of between 2% and 3%, "on average, over time".

Uncomfortably for Governor Lowe, underlying inflation (abstracting from unusual moves which are quickly reversed) has been below 2% ever since he was appointed governor in late 2016.

Explaining his push for higher inflation to a business audience in Sydney on Tuesday night he said that while adherence to the target was intended to be flexible, that flexibility was "not boundless".

> *If inflation stays too low for too long, it is possible that inflation expectations move lower – that Australians come to expect sub-2% inflation on an ongoing basis. If this were to happen, it would be harder to achieve the medium term inflation goal. So we need to guard against this possibility.*

He is also required to aim for full employment.

He told the business audience that while for some years the bank and others had thought full employment meant an unemployment rate of 5%, the absence of inflation at 5% and the persistence of underemployment (where people wanted more hours) meant it could and should go lower.

> *Our judgement now is that we can do better than this – that we can sustain an unemployment rate of 4 point something.*

Lower interest rates should help by making it easier for businesses to borrow to expand, and giving consumers something in their pockets to buy from them.

IF YOU DON'T SUCCEED...

If that doesn't happen, the bank will cut again.

Tuesday's statement as good as said so:

> *The board will continue to monitor developments in the labour market closely and adjust monetary policy to support sustainable growth in the economy and the achievement of the inflation target over time.*

Tuesday's cut and the next will take the bank into uncharted waters, where its so-called cash rate – what it pays to banks to deposit money with it overnight – is close to zero.

As far as can be discerned it has never been that low in the 100+ years the Reserve Bank has been in operation, originally as the Commonwealth Bank of Australia.

Should inflation still not pick up and employment still not fall as far as it believes it could, it will have to effectively cut its cash rate below zero, forcing cash into the hands of banks by aggressively buying government bonds, giving them little choice but to lend it to households and businesses, in a process known as quantitative easing. It has been done in the United States, Europe, the United Kingdom and Japan, and is by now anything but unconventional.

Governor Lowe would prefer the government to pull its weight by cutting tax and boosting spending, especially on infrastructure, and by policies that make Australia more productive.

He said so on Tuesday night

> *the best approach to delivering lower unemployment and a stronger economy is through structural policies that support firms expanding, investing, innovating and employing people. As we ease monetary policy, it is in the country's interest that other policy options are considered too.*

Treasurer Josh Frydenberg gets it.

He pointed out on Tuesday that the yet-to-be-approved tax offsets in the budget will give Australians on up to A$126,000 a cash bonus of up to A$1,080 when they submit this year's tax return, far more than the rate cut.

His biggest concern, and the biggest concern of the governor, might be that they don't spend it. Another concern would be that the banks don't pass the rate cut on.

The ANZ has said it will only cut mortgage rates by 0.18 points instead of the full 0.25, a decision Frydenberg said "let down" customers. Westpac has cut by only 0.20 points. The National Australia and Commonwealth banks have passed on the cut in full.

On Tuesday night in Sydney Governor Lowe addressed the question of whether the banks should have passed on the full cut head on:

> *My usual practice in answering this question has been to explain that there are a range of other factors that influence mortgage pricing, and then say "it all depends".*
>
> *Today, though, I would like to break with my usual practice and provide a clearer answer. And that is: Yes. There has been a substantial reduction in the cost of banks raising funds in wholesale markets. Average rates on retail deposits have also come down.*
>
> *This means that the lower cash rate should be fully passed through into standard variable mortgage rates. Full pass-through would also mean that the economy receives the full benefit of today's policy decision.*

The Governor is concerned that, for their own reasons, lenders such as ANZ and Westpac are forcing him to cut rates lower than he should and making an already difficult job harder.

If he has to cut further he will, but with the cash rate at just 1.25%, he would dearly love not to have to.

Are you eligible to claim depreciation deductions?

BRADLEY BEER
CEO, BMT Tax Depreciation

With tax time fast approaching it's important for property investors to have a good understanding of the deductions they're entitled to claim this June 30.

Owners of any income-producing properties are eligible to claim tax deductions for several expenses involved in holding a property such as management fees and council rates.

Along with property expenses, investors can also claim tax deductions for depreciation.

Depreciation is a non-cash deduction, meaning investors don't need to spend any money to be eligible to claim it.

Many investors are unaware of their property depreciation entitlements and frequently miss out on the valuable returns they can provide.

To help investors maximise the deductions they can claim from an investment property, let's look at some key points to help you understand depreciation.

WHAT IS DEPRECIATION?

Over time, any building and the assets contained within it will experience wear and tear. Legislation allows the owners of any income producing property to claim this wear and tear as a tax deduction.

DEPRECIATION DEDUCTIONS

The Australian Taxation Office (ATO) clearly defines two types of depreciation allowances available for property investors:

- Division 43 capital works allowance
- Division 40 plant and equipment depreciation

Capital works allowance refers to deductions available for the wear and tear that occurs to the structure of the property.

Owners of any residential building in which construction commenced after the 15th of September 1987 are eligible to claim capital works deductions at a rate of 2.5 per cent per year over 40 years.

Owners of older buildings constructed prior to 1987 should still enquire about what deductions are available, as often these buildings will have undergone some form of renovation which can be classed as a capital works deduction.

Plant and equipment depreciation refer to the deductions an investor can claim for the wear and tear that occurs to the easily removable fixtures and fittings found within the property.

There are more than 6,000 plant and equipment assets recognised by the ATO as deductible,

> *There are more than 6,000 plant and equipment assets recognised by the ATO.*

> ***Many investors are unaware of their property depreciation entitlements.***

including as carpet, blinds, air conditioners, hot water systems, smoke alarms and ceiling fans.

Each plant and equipment asset has an individual effective life and depreciation rate as set by the ATO.

CALCULATE YOUR DEDUCTIONS

Often an investor will make the mistake of thinking their accountant will claim all the deductions available in their investment property.

When it comes to depreciation, however, it is important to consult an expert.

Legislation recognises Quantity Surveyors as being one of a few select professionals with the knowledge necessary to estimate construction costs for depreciation purposes.

A specialist Quantity Surveyor such as BMT Tax Depreciation will use their skills to provide a depreciation schedule which outlines the deductions an investor can claim at the end of each financial year.

An accountant will then use the figures outlined in the depreciation schedule when submitting the investor's individual income tax return.

MAXIMISE YOUR TAX RETURN

The additional funds an investor receives by claiming depreciation can have a significant impact on their cash flow.

During the 2017/2018 financial year, BMT found residential property investors an average first year deduction of $8,212.

To find out the deductions you can claim, Request a Quote or contact the expert team at BMT on 1300 728 726.

* Under new legislation outlined in the Treasury Laws Amendment (Housing Tax Integrity) Bill 2017 passed by Parliament on 15th November 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 previously used plant and equipment assets. Investors can claim deductions on plant and equipment assets they purchase and directly incur the expense for. 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. To learn more visit www.bmtqs.com.au/budget-2017 or read BMT's comprehensive White Paper document at www.bmtqs.com.au/2017-budget-whitepaper.
Visit www.bmtqs.com.au/co-ownership-example to see how a split report increases deductions for two owners.

Capital city and regional market review

KIERAN CLAIR
Editor, PIPA Adviser

The latest round of data continued to show prices and sales softening across the nation – however with an element of moderation in the results.

According to CoreLogic, the pace of dwelling value declines eased further in May, continuing a trend that has been evidence since the start of this year.

CoreLogic's Hedonic Home Value Index for May found dwellings values down 0.4 per cent, which was the smallest month-on-month decline since May 2018.

"This improvement is primarily being driven by a slower rate of decline in Sydney and Melbourne where housing values were previously falling at the fastest rate of any capital city," CoreLogic head of research Tim Lawless said.

"Sydney values were 0.5 per cent lower over the month while Melbourne values were 0.3 per cent lower – the smallest decline in values across both cities since March last year.

"In other cities, where housing market conditions have generally been more resilient to a downturn, the trend is opposite."

According to the index, Hobart values have tracked lower for two months running, taking the rolling quarterly rate of change into negative territory for the first time since early 2016.

With Canberra values 0.2 per cent lower over the month, the quarterly rate of growth remains only slightly in positive territory.

The data shows that the market is in a geographically broad-based downturn with Adelaide the only city to avoid a slip in housing values over the month

In the "rest-of-state" areas, South Australia, Tasmania and Northern Territory were the only regions in which values rose in May.

In fact, regional Tasmania is the only broad region across the country where housing values remain at record highs.

The slower rate of decline is also visible in higher auction clearance rates through the month.

According to CoreLogic, the last week of May saw Sydney clearance rates break the 60 per cent mark for the first time in a year, while Melbourne clearance rates have held around 60 per cent over three of the past six weeks.

"Although clearance rates remain low relative to several years ago when housing market conditions were much stronger, the improved performance at auction aligns with the easing rate of decline," Mr Lawless said.

> ***The pace of dwelling value declines eased further in May.***

> ***The improved performance at auction aligns with the easing rate of decline.***

The index also showed that since peaking in October 2017, national dwelling values have reduced by 8.2 per cent, with values across the combined capitals index down 10.1 per cent, however, regional values have been more resilient, falling by three per cent since peaking.

Larger capital city falls have been recorded in Darwin (-29.5 per cent) and Perth (-19.2 per cent), as well as regional WA (-32.5 per cent) where the mining downturn has led to persistently weak economic and demographic conditions.

According to the index, these regions now represent some of the most affordable housing markets around the country – a factor which explains the high proportion of first home buyer participation in these areas.

Index results as at May 31, 2019

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-0.5%	-2.0%	-10.7%	-7.5%	$776,135
Melbourne	-0.3%	-1.7%	-9.9%	-6.8%	$619,804
Brisbane	-0.5%	-1.4%	-2.3%	2.0%	$484,882
Adelaide	0.2%	-0.2%	0.4%	4.6%	$431,702
Perth	-1.0%	-1.8%	-8.8%	-5.0%	$436,090
Hobart	-0.4%	-0.7%	3.4%	8.5%	$445,235
Darwin	-1.6%	-3.3%	-8.6%	-2.5%	$393,298
Canberra	-0.2%	0.2%	2.4%	7.0%	$587,583
Combined capitals	-0.4%	-1.7%	-8.4%	-5.0%	$592,135
Combined regional	-0.2%	-1.0%	-3.0%	1.8%	$377,462
National	-0.4%	-1.5%	-7.3%	-3.6%	$519,537

SOURCE: CORELOGIC

The last time values were this low in Darwin was March 2017, in Perth values were previously this low in April 2006 and values haven't been this low across regional WA since July 2005, according to CoreLogic.

REGIONAL AREAS REDUCING

The latest CoreLogic Regional Report also revealed challenging property market performance across Australia's regions, with falling sales activity in the 12 months to February 2019.

"The regional markets are taking their lead from the capital cities, with the annual rate of value growth winding down across most regions. While value growth is typically slowing, many regional markets are experiencing a lift in rental rates," CoreLogic research analyst Cameron Kusher said.

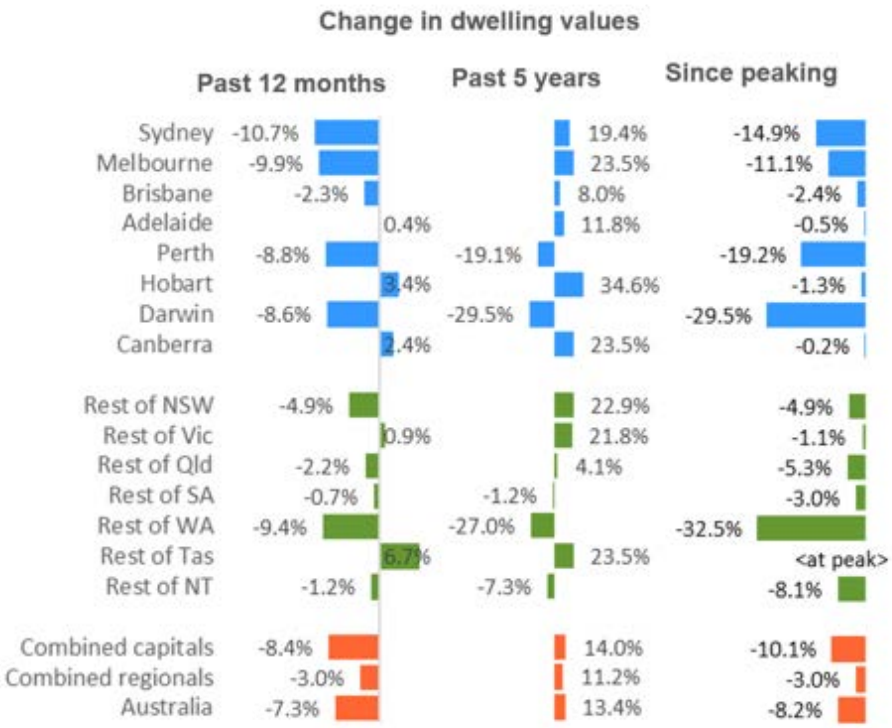
Detailed analysis from the report found:

NEW SOUTH WALES

Sales activity was lower year-on-year across all three New South Wales regions, with the biggest fall in sales volumes seen across Illawarra (-21 per cent) when compared to February 2018.

The Illawarra region saw the largest annual decline in house values (-10.1 per cent), while the largest fall in unit values year-on-year was seen across Newcastle & Lake Macquarie (-9.4 per cent).

The Illawarra region saw no change in advertised rental rates over the year to March 2019, while renting across the Newcastle & Lake Macquarie and Richmond-Tweed regions is more expensive than 12 months ago for both houses and units.



SOURCE: CORELOGIC

QUEENSLAND

Queensland saw sales activity fall across all five regions over the year to February 2019, with the largest fall recorded across the Gold Coast (-17 per cent).

Wide Bay was the only Queensland region where both house and unit values increased over the 12 months to March 2019.

The largest annual fall in both house and unit values for Queensland was seen in Townsville, where house values

> ***The market is in a geographically broad-based downturn.***

> ***Many regional markets are experiencing a lift in rental rates.***

were down 4.8 per cent and unit values were down 13.5 per cent when compared to March 2018.

The cost of renting in Queensland is on the up, with advertised rental rates for houses increasing across all five regions.

Cairns had the biggest increase (3.8 per cent), followed closely by the Gold Coast (3.7 per cent) and the smallest increase was recorded across the Sunshine Coast at two per cent.

Looking at units, the advertised rental rates increased in four of the five regions with Wide Bay the only region to see no change.

The largest increase in rental rates for units was seen across Cairns (5.1 per cent).

VICTORIA

Across Victoria, the Geelong region saw sales activity fall 18 per cent over the year to February, while transactions in the Latrobe-Gippsland region fell 10 per cent over the same period.

Both Victorian regions saw dwelling values increase over the 12 months to March 2019, with values increasing by 0.4 per cent for houses and 5.4 per cent for units in Geelong, compared to the Latrobe-Gippsland region, where house and unit values increased by 5.9 per cent and 7.9 per cent respectively.

Over the 12 months to March 2019, the advertised rental rates in Geelong increased by $20 per week for both houses and units, while the Latrobe-Gippsland region saw advertised rents rise $20 per week for houses and $15 per week for units.

WESTERN AUSTRALIA

Western Australia's Bunbury region saw sales volumes fall seven per cent over the 12 months to February 2019.

Home values were also down across the region with house values down 4.1 per cent and unit values down 19.5 per cent over the year to March.

Looking at the rental market, the advertised rental rate for houses across the region saw no change when compared to March 2018, while units fell 3.2 per cent over the same period, meaning it is $10 per week more affordable to rent the average unit.

https://www.corelogic.com.au/news/housing-downturn-losing-steam-pace-declining-home-values-continues-reduce-may

https://www.corelogic.com.au/news/sales-activity-falls-all-australian-regions