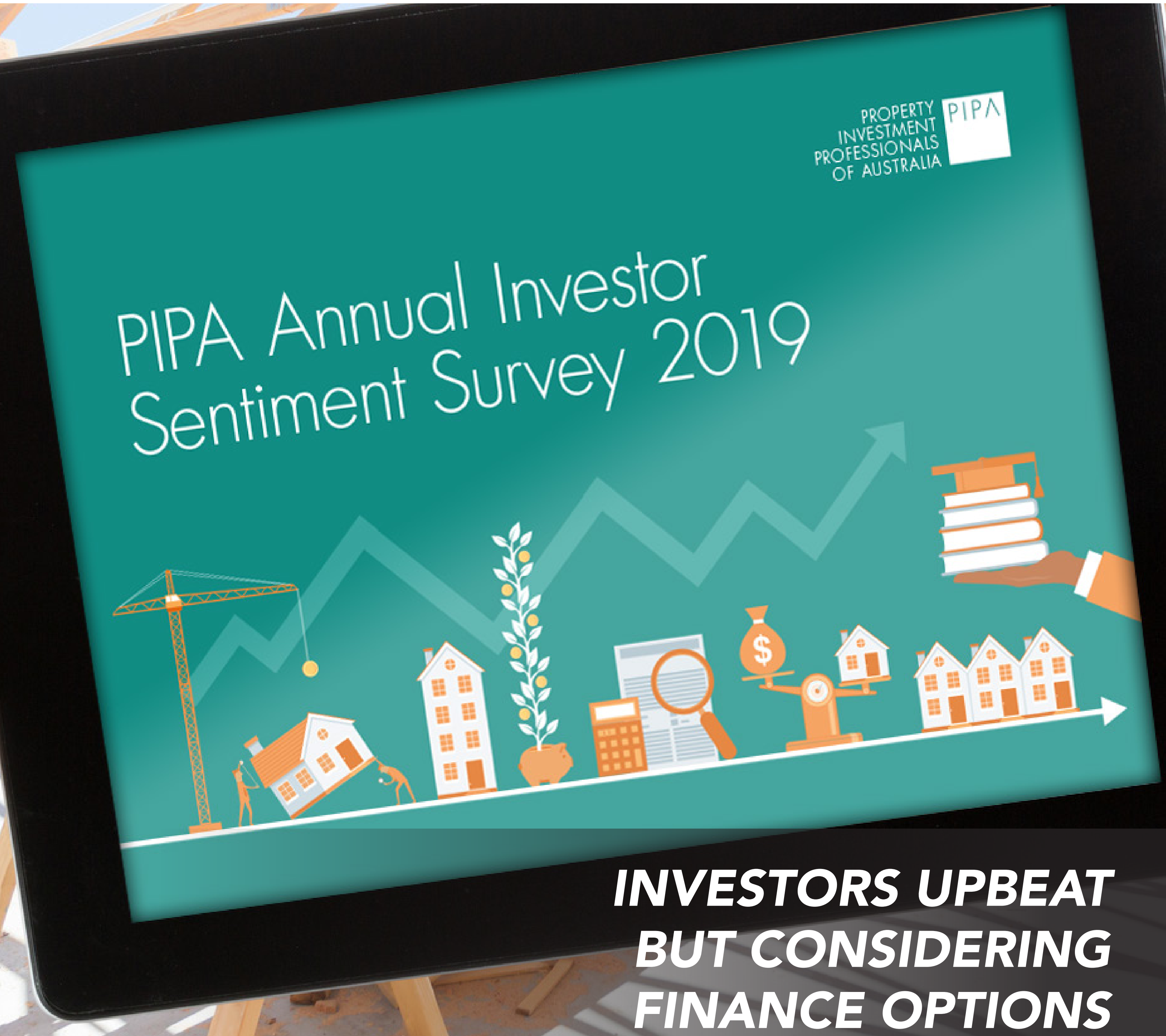
PIPA ADVISER

ISSUE #17

For members of the Property Investment Professionals of Australia



INVESTORS UPBEAT BUT CONSIDERING FINANCE OPTIONS

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 quarterly title published four times a year by PIPA (Property Investment Professionals of Australia) www.pipa.asn.au

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PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA

PETER KOULIZOS
Chairman, PIPA

A request to help grow our association

Welcome to the 17th edition of the PIPA Adviser – your industry magazine. As we count down to the end of the decade, it would be fair to say that our industry is finishing on a high note after a challenging start to the year.

This time last year, market conditions were far from favourable, plus investors were struggling to secure finance.

Of course, the start of the year saw the Federal Election posturing begin, which created even more pressure on our industries and our businesses.

As you're aware, PIPA met with the Prime Minister Scott Morrison and the Federal Treasurer Josh Frydenberg in Canberra in February as part of an industry roundtable on Labor's absurd property taxation policies.

Our association also played a significant role in the successful industry negative gearing campaign during the election period.

I have no doubt that the campaign was part of the reason why the government was returned in early May.

PIPA's role in this momentous result cannot be overstated, with our association now firmly on the radar of the Federal Government.

Of course, the only way we have been able to secure a seat at the table is because of the ongoing support of our members for more than a decade now.

From a grassroots association with a handful of practitioners committed to improving the professionalism in our sector to today where PIPA represents thousands of people employed in the industry.

However, our journey is only just beginning with our ultimate goal of securing regulation for property investment advice still yet to be achieved.

Next year, PIPA will continue our fight for legislation, which will benefit everyone, including consumers.

This year, we have also been working hard to digitize the QPIA, which will be available next year, and have redesigned the PIPA website, including the member search functionality.

Also, in the year to date, PIPA has secured media coverage in 363 stories, with an estimated audience of 4.3 million and worth about $1.3 million in brand awareness.

This strong media presence not only grows the PIPA brand generally, which benefits all members, but also drives consumers to seek out members to assist in their property investment goals.

PIPA has also invested in new advertising, which you will see throughout this edition, which will be published in print and online trade media soon.

PIPA is committed to growing our member benefits next year as well as our membership base generally to ensure we have the funds necessary to achieve our mission.

Many of our new members are introduced to PIPA by existing members, so I ask each of you to please reach out to your networks and encourage more professionals to join the cause.

PIPA's profile and influence is already strong, but imagine what we can collectively achieve if we could double our membership base?

We could be the association that gets rid of spruikers once and for all!

I wish every member and their families a happy Christmas and New Year and, on behalf of the board, thank you for your continued support.

Here is to a successful 2020 for everyone!

PETER KOULIZOS
PIPA CHAIRMAN

Investors upbeat but considering finance options

PETER KOULIZOS
Chairman, PIPA

Welcome to the 2019 PIPA Annual Property Investor Sentiment Survey – Australia's most comprehensive snapshot of the nation's property investor community, complied for the benefit of our members.

This survey is a rare and detailed portrait of Australia's residential property investors and how they think.

Investors remained upbeat about property in 2019 and were demonstrably more positive about the market compared to the same time last year – despite slower markets in Sydney and Melbourne and a relatively tight financial environment.

However, the two leading concerns of the nearly 1200 investors surveyed were gaining access to lending and Australian economic conditions.

The survey found that Labor's proposed changes to negative gearing and Capital Gains Tax legislation heavily influenced the way that 75 per cent of investors voted in the recent Federal Election, despite short-term tax benefits being the least important criteria in investment property selection in this year's survey results.

Difficulty obtaining finance, as well as the popularity of banks being on the slide over the past year, meant that about 59 per cent of investors are now more likely to consider a non-major bank lender, especially after the outcomes of last year's Banking Royal Commission.

Indeed, given tight lending conditions and the financial sector's response to the Banking Royal Commission, a staggering 25 per cent of respondents have found they were unable to refinance an amount they were able to borrow previously.

Legislation is also having an impact on landlords, too, with more than four in five investors indicating

> ***Investors are now more likely to consider a non-major bank lender.***

they would pass on increased costs to tenants resulting from any potential changes to State and Territory tenancy laws.

There is no doubt that first home buyers have made the most of the softer market conditions over the past year, however, over one-third of first-time buyers self-identified as rentvestors in the survey – where they've bought an investment property while renting elsewhere.

Borderless investing is also popular, with 45 per cent of investors looking to buy outside the state that they live in.

While Brisbane is once more the preferred capital city for investment among respondents, there has been a dramatic rebound in Sydney's appeal among investors – rising from nine per cent in 2018 to 14 per cent in 2019.

This year's survey also again highlighted the need for improved professional standards and regulation of the property investment advice industry.

In fact, 88 per cent of investors continue to believe that more education is needed around the risks and benefits of investing in property, plus virtually all (93 per cent) of respondents believe that any provider of advice should have formal training.

Indeed, about 90 per cent of investors believe the property investment industry should be regulated and licensed the same way that financial planners, mortgage brokers and real estate agents are.

Summary of key findings

PROPERTY INVESTORS FOCUS ON THE LONG-TERM MERITS OF REAL ESTATE AND HAVE BECOME INCREASINGLY BULLISH ABOUT THE CURRENT MARKET

PROPERTY INVESTORS CONTINUE TO SEEK LONG-TERM CAPITAL GAINS ABOVE ALL OTHER DRIVERS WHEN CHOOSING AN INVESTMENT

Long-term capital growth beat out cash flow – both long- and short-term – as the most important aspect when choosing an investment.

LENDING AND THE ECONOMY CONTINUE TO CONCERN INVESTORS

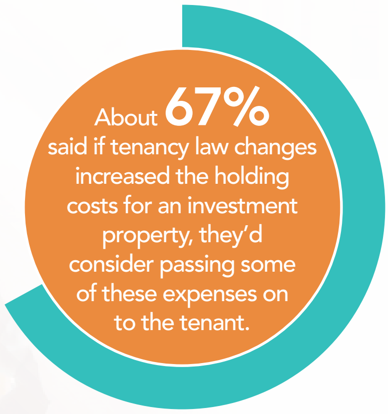
However, given tighter lending conditions and the financial sector's response to the Banking Royal Commission,

25% of respondents have found themselves in a position where they were unable to refinance an amount that they were able to borrow previously.

INVESTORS ARE STILL ON THE HUNT FOR A BETTER LENDING DEAL

Over 27% said they would consider refinancing their loan for an interest rate differential of just 0.5 percentage points while just under 17% said they would consider refinancing for one percentage point. Both were similar to the 2018 results.

POTENTIAL CHANGES TO STATE TENANCY LAWS COULD SEE RISING COSTS PASSED ON TO TENANTS



ESTABLISHED HOUSES REMAIN THE TOP INVESTMENT CHOICE

The number of investors looking to buy existing stock continues to be high, reflecting 91% – a fall of just 2% on last year's result with 71 per cent saying they intended to buy an established house in the next 12 months.

PIPA ANNUAL PROPERTY INVESTOR SENTIMENT SURVEY

INVESTORS VOTED IN FORCE AGAINST PROPOSED CHANGES TO NEGATIVE GEARING AND CGT

About **75%** of investors said Labor's proposed changes to negative gearing and Capital Gains Tax influenced their Federal Election voting decision.

BRISBANE STAYS IN FAVOUR WHILE SYDNEY'S APPEAL IS BACK ON THE RISE

The number of investors who see Brisbane as the state capital with the best investment prospects has remained at 44% in 2019 (same outcome as 2018). Brisbane continues to be seen more positively than Melbourne (27% in 2019 vs. 26% in 2018), Sydney (14% vs 9%) and Adelaide (7% vs 8%).

BORDERLESS INVESTING BECOMING POPULAR

Borderless investing is popular, with 45 per cent of investors looking to buy outside the state they live in, while 24 per cent wouldn't and 31 per cent were unsure.

INVESTORS WANT TO SEE GREATER PROFESSIONAL STANDARDS

An overwhelming majority of respondents (88%) think more education is needed around the risks and benefits of investing in property, and almost all (93%) believe that any provider of property investment advice should be regulated/licensed.

Property investors focus on the long-term merits of real estate and have become increasingly bullish about the current market. Near-term investors are most interested in established houses.

Around 98% of property investors have some form of idea, plan or strategy around their investing, with 26% having a detailed and modelled plan designed to match long-term investment goals.

Some 78% of investors say any concerns about potential falling house prices won't cause them to put investment plans on hold.

About **82%** of investors believe that now is a good time to invest in residential property, which is up from 77% in 2018.

About **48%** of investors are looking to purchase a property in the next six to 12 months, down from 52% in 2018.

Of those looking to invest in the next six to 12 months, 71 per cent are interested in purchasing an established house, with the remaining distribution including townhouse/villa at 6%, unit/apartment at 6% and house-and-land package at 2%.

However, the number of investors in the market has fallen dramatically with 34% of investors purchasing a property over the past 12 months, down from 43% in the 2018 survey, and 47% in the 2017 survey.

The overwhelming majority of respondents are investment veterans who have purchased several properties in the past – 44% hold two to four properties in their portfolio, while another 17% hold five to 10. This was down on the 2018 numbers showing 45% and 21% respectively.

That said, there was good representation from first-time investors. Of all respondents who

82% of investors believe that now is a good time to invest.

purchased in the past 12 months, 21% (85) purchased their first investment property in the year. Of these first-time purchasers, 75% purchased an existing property (down from 83% in 2018) while 16% purchased new or off-the-plan (up from 14% in 2018). The remainder purchased vacant land.

The rise of the rentvestor is well and truly established in this cohort. Among these first-time investors, just over one third (34%) identified as renting elsewhere while the remaining 66% owned the home they lived in.

PROPERTY INVESTORS CONTINUE TO SEEK LONG-TERM CAPITAL GAINS ABOVE ALL OTHER DRIVERS WHEN CHOOSING AN INVESTMENT

Long-term capital growth beat out cash flow – both long- and short-term – as the most important aspect when choosing an investment.

Short-term tax benefits continued to be seen as the least important driver when choosing an investment.

Property investors are looking to improve their lot. When asked why they choose to invest, the most important reason was to provide a better life financially for themselves and their family, while the idea of "becoming rich" was one of the least important reasons.

About 64% of investors said they were fine with being open about their investment activity with others, despite negative political and media perceptions of property investors as "greedy" – the same result as in 2018.

LENDING AND THE ECONOMY CONTINUE TO CONCERN INVESTORS

The two leading concerns of the investors surveyed were gaining access to lending and Australian economic conditions.

While 55% in 2019 (61% in 2018) of investors with interest only loans said they won't struggle to meet the new principal and interest repayments once the current interest-only period expires, 9% in 2019 (12% in 2018) said they would struggle.

Of those that will struggle to meet P+I repayments, 24% said they have sold, or will have to sell, an investment property to meet lending commitments, which is a huge rise on the 5.5% result in 2018.

Given tighter lending conditions and the financial sector response to the Banking Royal Commission, 25% of respondents have found themselves in a position where they were unable to refinance an amount that they were able to borrow previously. 44% (up from 35% in 2018) said they were able to refinance, while 29% were unsure.

59% of investors are now more likely to consider a non-major bank lender after the outcomes of last year's Banking Royal Commission.

Increased borrowing power and cheaper interest rates were the primary reasons investors were considering non-major bank lenders. Better credit policies also rated highly.

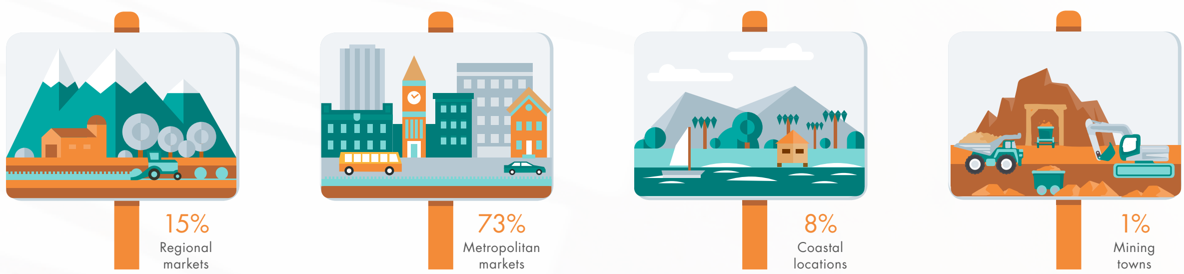
INVESTORS ARE STILL ON THE HUNT FOR A BETTER LENDING DEAL

The survey says that about 27% of investors have secured a loan from a non-major bank lender in the past 12 months.

The top two reasons for doing so were cheaper interest rates and increasing borrowing power.

Over 27% said they would

Where is the most appealing place to buy right now?



consider refinancing their loan for an interest rate differential of just 0.5 percentage points while just under 17% said they would consider refinancing for one percentage point. Both were similar to the 2018 results.

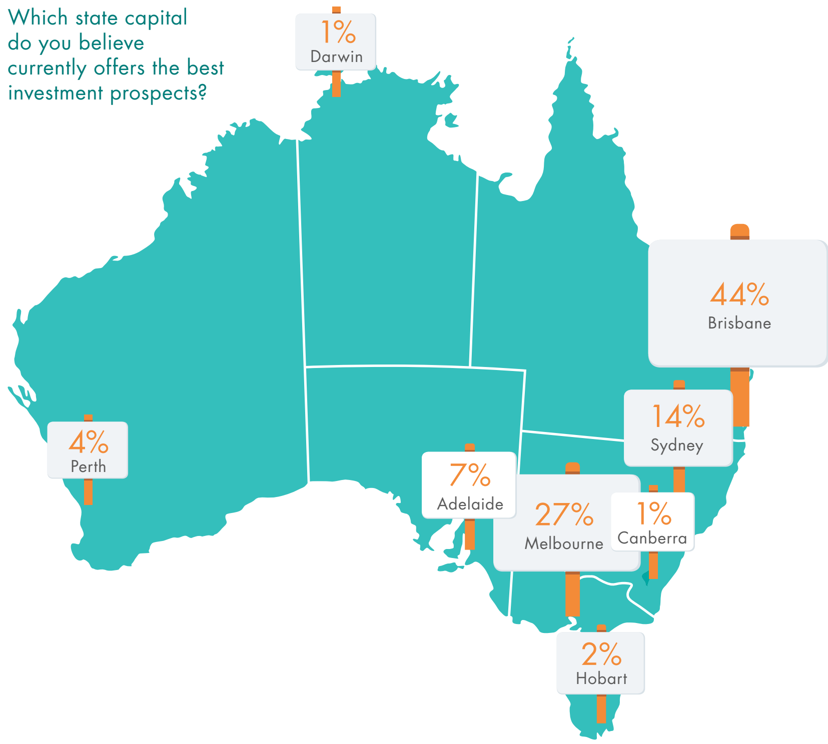
Almost 70% of investors secured their last investment loan through a broker, down from last year's result of 75%.

Only 20% secured their last loan directly from a bank – a similar result to 2018 – while 3% secured a loan directly from a credit union, building society or specialist lender.

INVESTORS VOTED IN FORCE AGAINST PROPOSED CHANGES TO NEGATIVE GEARING AND CGT

A staggering 75% of investors said proposed changes to negative gearing and Capital Gains Tax influenced their Federal Election voting decision.

About 41% of investors were negatively geared – down from 47% in 2018.



The vast majority of negatively geared investors expect to become positively geared within five years.

The vast majority of the negatively geared investors are not having trouble covering the cash flow shortfall at the moment.

ESTABLISHED HOUSES REMAIN THE TOP INVESTMENT CHOICE

The number of investors looking to buy existing stock continues to be high reflecting 91% – a fall of just 2% on last year's result with 71 per cent saying they intended to buy a house in the next 12 months.

The number of investors looking at off-the-plan units or house and land packages sits at 5% which is down from 6.4% in 2018.

AS METRO LOCATIONS RETAIN THEIR POPULARITY, BRISBANE STAYS IN FAVOUR WHILE SYDNEY'S APPEAL IS BACK ON THE RISE

Investors remain keen on opportunities to invest in metropolitan markets (73% vs. 72% in 2018), while the appeal of coastal locations has stayed flat at 8% for both 2019 and 2018. Meanwhile the proportion of investors that say regional markets are the most appealing has also stayed at 15% in 2019 – the same as 2018.

The majority of investors are also confident of their local market. When asked the direction of the property market in their state or territory, 53% said it was improving while 41% said it was flat.

> ***Investors remain keen on opportunities to invest in metropolitan markets.***

> ***Investors are seeking property investment advice most commonly from property investment advisors.***

The number of investors who see Brisbane as the state capital with the best investment prospects has remained at 44% in 2019 (same outcome as 2018). Brisbane continues to be seen more positively than Melbourne (27% in 2019 vs. 26% in 2018), Sydney (14% vs 9%) and Adelaide (7% vs 8%). Perth has fallen slightly in appeal (4% vs. 6%), while Hobart dropped to 2% this year, – down from 4% in 2018. Canberra sits at just 1% – the same as its 2018 result – and Darwin remains in the doldrums at 0.3%, (down from 0.5% last year).

RENTVESTING AND BORDERLESS INVESTING RESONATING

Borderless investing is popular, with 45 per cent of investors looking to buy outside the state they live in, while 24 per cent wouldn't and 31 per cent were unsure.

The majority (63%) of investors said they would consider rentvesting (renting in one location and investing in another) as a property investment strategy, which was the same percentage as in 2018.

Over one-third of first-time investors identified as 'rentvestors' – where they've bought an investment property while renting elsewhere.

Do you intend to buy your next investment property in a different State than the one you live in?

45% Yes

24% No

31% Unsure

PROPERTY INVESTORS ARE HIGHLY SOPHISTICATED AND ARE OVERWHELMINGLY INVESTING OUTSIDE SMSF

This survey paints a picture of an investment community that is highly sophisticated, with investors doing a lot of planning and research before they buy.

The overwhelming majority of respondents are investment veterans who have purchased several properties in the past – 44% hold two to four properties in their portfolio, while another 17% hold five to 10.

This was down on the 2018 numbers showing 45% and 21% respectively. Investors continue to use the services of specialised professionals with mortgage brokers, accountants and lawyers/conveyancers the most employed advisors.

Investors are seeking property investment advice most commonly from property investment advisors, buyer's agents/advocates and mortgage brokers.

Of those that sought a professional investment advisor, 62% paid the advisor a fee directly.

Of those that sought professional advice, 55% were provided with a written report or plan, 18% weren't provided with a plan and 28% responded 'not applicable' to the advice they sought.

Investors seek knowledge and education from a wide range of

> ***The majority (63%) of investors said they would consider rentvesting as a property investment strategy.***

sources. In 2019, podcasts were the most used source along with professional advisors.

The largest group of investors (46% this year, down from 49% last year) continue to have a "hold and never sell" approach.

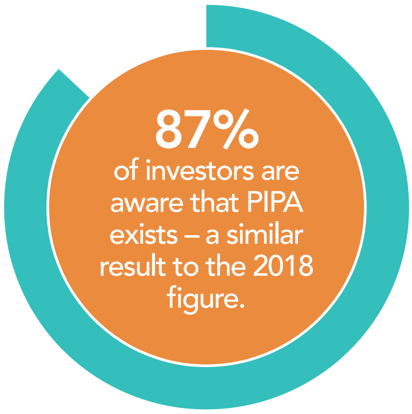
Investors (84%) continue to invest overwhelmingly outside their SMSF and an even greater percentage (91%) said they have no plans to invest via their SMSF in the next 12 months either.

INVESTORS WANT TO SEE GREATER PROFESSIONAL STANDARDS

The survey found that 88% of all investors continue to think that more education is needed around the risks and benefits of investing in property.

Virtually all (93%) investors continue to think that any provider of advice should have formal training

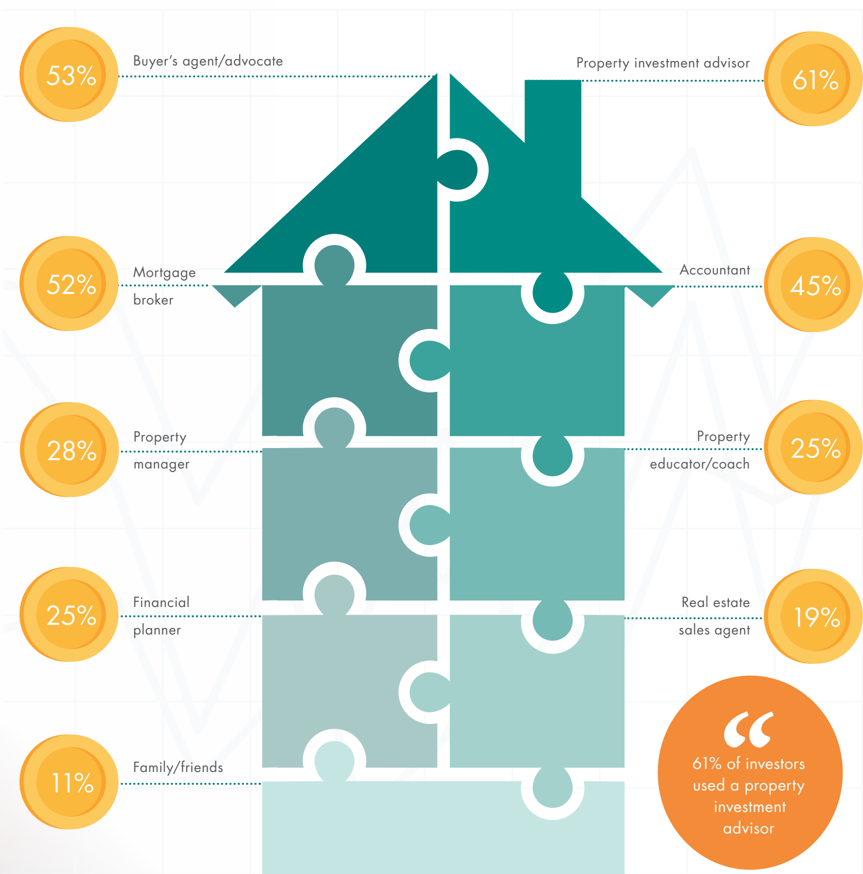
About 90% of investors believe the property investment industry should be regulated and licensed the same way financial planners, mortgage brokers and real estate agents are.



While 31 per cent said an advisor's PIPA membership influenced their decision in selecting them.

About 78 per cent of respondents were aware of the not-for-profit association, PICA, which is an advocacy group working on behalf of investors.

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



ABOUT THE SURVEY

The 2019 PIPA Annual Property Investor Sentiment Survey of 1192 investors was conducted online in August and September 2019. Respondents were sourced from PIPA's database of property investors and its members' databases of investors. PIPA's membership base includes property investment advisers, as well as a range of professionals whose business operations form part of the property investment process. These include financial planners, property buyers and advocates, accountants, mortgage brokers, real estate agents, lenders and developers.

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

KIERAN CLAIR
Editor, PIPA Adviser

WA – Be selective

During the mining boom, everything looked rosy for our western capital and WA's coast regions. Plenty of money was splashing around and bringing in new residents seeking a slice of the resources pie.

The economy was booming and there was some loose talk population growth would see Perth threaten Melbourne's mantle as Australia's second-biggest city.

But come forward half a decade and things have turned on a dime.

Over supply issues, particularly in relation to high-rise units, coupled with dwindling job opportunities have caused plenty of market retraction.

Throughout 2018/19, we've been dealing with dichotomies in the Western Australian market.

Many observers feel most of the hurt has run its course, and we are in a market that vacillates between 'still bottoming' and 'buying opportunity'. It depends on who you ask and what the most recent headline is espousing.

Herron Todd White's (HTW) property report *Month In Review* took a look at WA in October, and it's property clocks told the story.

According to HTW, Perth housing remained at the bottom of the property price, while the South West region housing still has some price softening to come.

On the unit front it was more dire, as both Perth and South West WA are in a declining price sector.

The qualitative numbers backed this position as well.

In HTW's analysis, they cited REIWA data which revealed a median sale price of $485,000 for the June 2019 quarter – some 2.0 per cent lower than the previous quarter and 3.4 per cent lower than the June quarter 2018.

In addition, there were approximately 5000 units sold in the same period with a median sale price of $385,000 – a 1.0 per cent reduction compared to the March 2019 quarter and 5.5 per cent lower than the June quarter 2018.

The upside was most definitely the rental market resilience against the subdued sales market. HTW noted that median weekly rental was holding at $350 for the June quarter – which reflected a median of $360 for houses and $330 for units.

The median yield for houses sat at 3.8 per cent and 4.5 per cent for units in the June Quarter which are solid for a capital city of any description.

Chris Hinchliffe, a director at HTW Perth, said while housing closer to Perth's city centre had consolidated, much of the hurt had come from suburbs further afield.

"Within 10 to 15 kilometres of the CBD - yes, it's been bouncing along the bottom for a while, but the average median house price is being negatively affected by stock in outer lying areas.

"Further out it's still declining due to continuous supply of new products and minimal demand for near new and older products."

Mr Hinchcliffe said regionals were struggling on the whole too.

"It's a hard question to answer as it's a big state! Activity in most regional areas is subdued, with the exception of Karratha and Port Hedland."

Mr Hinchliffe confirmed the unit market bore the brunt of most of the downturn in Perth itself, with oversupply continuing to be a concern.

Despite the rough news, however, he believed the right assets could achieve excellent results.

"Whether the market is at the bottom, or close to the bottom, the reality is that stock on market is well below levels seen over the previous five years and the rental vacancy rate remains below three per cent.

"There appears to be minimal downside if purchasing the right product in the right location. Given current rates of return in other investment classes, the rental returns available in Perth are starting to look competitive."

Emma Everett, buyer's agent team leader at Empower Wealth, said they were seeing positive signs for traditionally blue-chip real estate.

"While improvements are yet to flow through to Perth's median house price, our buyer's agents and research team are seeing a reduction in days on market and lower discount rates in tightly held areas, signalling that recovery is already well underway for well-placed properties in these suburbs"

Ms Everett said for investors, there are some stronger signs too.

"Perth's rental market has recorded significant improvements over the past 12 months, with vacancy rates now sitting at 2.9 per cent and properties for lease approaching 6000, which is 17 per cent lower than the figures we saw last year.

"At the same time, our property managers are noting higher levels of rental competition on the ground, underpinned by greater attendance at home opens and multiple applications on a number of properties."

Ms Everett said the oversupply hangover from the mining boom is returning to equilibrium, and there's been some good economic news, but increased population growth is needed to spark the market up again.

"Whilst these growth rates have been somewhat limited in WA in recent years, ABS statistics have indicated that WA's population growth rate is improving; coupled with a continued rise in business confidence, this upward trend could have a positive influence on buying competition and demand for housing."

In short, Ms Everett said Perth's market was transitioning, and the key to successful investment will absolutely revolve around property selection.

"The relative affordability of Perth's property market is now at its highest in almost a decade, and astute investors who make strong property selections could benefit significantly from these market conditions, but they need to remain vigilant in their research and choice of properties."

> ***The relative affordability of Perth's property market is now as its highest in almost a decade.***

pipa profile

***Margaret Lomas** is a stalwart of the property investment sector as well as one of the founding members of PIPA. She looks back on how the industry and the association have changed over the years.*

YOU ARE A FOUNDING MEMBER OF PIPA. PLEASE DESCRIBE HOW AND WHY THE ASSOCIATION WAS FORMED 12 YEARS AGO.

The association was formed by a small group of property investment advisers who were concerned at the lack of regulation in the industry and the large number of spruikers taking advantage of uneducated consumers.

Our mission was twofold – to lobby the government to bring in regulation, and to develop a course to educate advisers and a code of conduct under which they could then operate until regulation evolved.

We have been highly successful in our second goal, but sadly, after more visits to Canberra than I can count, and some serious lobbying, the government remains steadfastly deaf to the serious issues that having no regulation raises.

Our board back then numbered just four people, each of whom donated significant time and personal funds to the association. Many hours and late nights were expended in getting the association to where it is today.

WHAT CHANGES HAVE YOU SEEN IN THE PROPERTY INVESTMENT SECTOR OVER THAT TIME?

Firstly, there are ten times as many players in the industry, and sadly this means ten times as much risk to the consumer, as without that much-needed regulation, a property adviser has no obligation to be educated, regulated or to operate under any kind of rule or law.

You can literally be unemployed one day and a fully-fledged “property investment adviser" the next and operate any way you like.

Most property investors are unaware of this, and mistakenly believe that anyone calling themselves an “adviser” must be governed in some way.

When a consumer is then left out of pocket, sometimes significantly, as a result of poor advice or just plain dishonest practice, there is virtually no recourse for them.

In the 25 years I have been advising, the changes have been vast.

This includes the development of so many different ways to invest in property, as well as the advent of a lot of clever strategies and schemes.

In my opinion, most of those are designed to benefit the person who created it first, and it is because of these schemes that many property investors find themselves far worse off than they were before they decided to invest in property.

LIKEWISE, HOW HAS PIPA EVOLVED OVER THE SAME PERIOD OF TIME?

PIPA has remained true to its original intentions – which is to simply educate consumers so that they can avoid the pitfalls of investing in property and create standards and accreditation so that anyone dealing with its members can at least know that there is someone watching the shop.

While PIPA can never guarantee that a consumer using the services of one of its members will have great success – since there is a limit to how deeply we can investigate potential members – at least if something does go wrong, we can advocate on that consumer’s behalf, often facilitating a suitable resolution.

PIPA has also now become more active in assisting its members with building their businesses, through the regular seminar offering as well as network events at which some additional education is always provided.

We look at both the property advising side of things, and the business development aspect, so that our members are operating as effectively and ethically as possible.

WHAT ARE SOME OF THE HIGHLIGHTS DURING YOUR INVOLVEMENT WITH THE ASSOCIATION?

The first highlight was getting the association to the point where it was actually supporting itself without the need for those original members to be funding the operation.

To achieve that our membership drive was always in overdrive, as the four board members networked, lobbied, and walked the halls of every property show in every town to drum up support and new members.

At that time, we also hired our first part-time staff member, which removed some of the administrative burden from the shoulders of those board members.

I think few people realise just how much work, money and resources were provided by the original four – we all donated staff hours, personal hours and significant funds for several years.

Becoming self-sufficient was not only an achievement, but a welcome relief!

For me, the other highlight was finally getting the association to the point where it had a decent-sized board of really well qualified and clever people, from many different areas of property investing.

At that time, I was finally able to hand on the chair role (which I had enjoyed, but probably had been in a little too long to remain effective) to someone else who had new ideas and fresh energy.

It's nice to believe that you are an important part of a team, but it is critical to realise that you aren't indispensable, and that new blood can often bring wonderful new ideas and direction.

On the day that I handed over that role, I knew it was the right thing for the association, as I had done as much as I could.

Many times, during board meetings, I cast my eye over the people present and reminisce on the times when we were four people, from three states, meeting in a little bar somewhere.

We have certainly come a long way!

PIPA'S MAIN GOAL HAS ALWAYS BEEN TO SECURE REGULATION FOR THE PROPERTY INVESTMENT ADVICE SECTOR. WHAT HAVE BEEN SOME OF THE HURDLES ALONG THE WAY, AND WHAT ARE SOME OF THE OPPORTUNITIES THE ASSOCIATION CAN NOW LEVERAGE?

The main hurdle is always change of government.

We start with the opposition usually, who love to have something to champion. Just as we get what seems like a firm commitment for the issue of regulation to be dealt with, that party wins office and they never speak to us again, until they are back in opposition.

I have visited three senators, had questions asked in the senate estimates committee more times than I can count and have had absolute commitment that regulation would be looked at so many times that I have now become an absolute cynic about the motivation of all politicians.

While it suits them to have a cause, they'll grab it. When the crunch comes, they do a complete about-face.

At one stage we even had several meetings with treasury, coming up with a concrete plan on how regulation would be implemented. Boy, were we excited! Five months later, change of government and no one can even find the minutes of those meetings!

When I present what has become pages of anecdotal evidence telling stories of property investors driven to the brink of bankruptcy by a property spruiker, most politicians are stunned, admitting they thought that regulation already existed

YOU HAVE BEEN A STALWART OF THE INDUSTRY FOR DECADES. WHAT ARE SOME OF THE ISSUES THAT REMAIN CONCERNING TO YOU AND WHAT CAN BE DONE ABOUT THEM?

I absolutely hate that a "property adviser" can give people advice on one hand, and then sell them a property on the other.

It's like telling people they have a problem they didn't know they had but then magically providing the solution.

I don't like the fact that most property investors don't even know how much money they are paying their adviser, because the fee is hidden as commissions on property.

Usually that investor also pays more than the property is worth to fund that commission, starting way behind the eight-ball and ending up very disappointed with the property's performance. And there is no regulation to stop this unethical behaviour!

It concerns me that people say they have no time to become educated about how to invest in property.

Then they hand over tens of thousands of dollars either knowingly, or via those commissions, to a property adviser (who isn't a PIPA member) to do the work for them.

They are totally unaware that the adviser probably has a property ready to sell them, for which they do no work to establish if that property even suits the personal and financial needs of that individual investor.

Those investors think they're getting advice, but in reality, it wouldn't have mattered what their financial circumstances or retirement goals were, that same property would have been recommended.

I could go on for days and fill this whole magazine with things which concern me.

FINALLY, WHAT ARE YOUR PLANS FOR THE YEARS AHEAD?

I think it's time for me to retire and become a fiction writer, don't you?

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

0.75% is a record low, but don't think for a second the Reserve Bank has finished cutting the cash rate

Anyone who thought that with the Reserve Bank's cash rate now close to zero, its run of interest rate cuts was over, needs only to read the last sentence of Governor Philip Lowe's announcement after Tuesday's cut:

> *The Board will continue to monitor developments, including in the labour market, and is prepared to ease monetary policy further if needed to support sustainable growth in the economy, full employment and the achievement of the inflation target over time.*

For the longest time, the run of cuts was over.

Lowe's immediate predecessor, Glenn Stevens, cut the cash rate to a record low of 1.5% in August 2016 as something of a "parting gift", allowing Lowe to take over and keep it steady, unchanged for a record 34 months.

For most of those three years he made it clear the rate was unlikely to fall further. Six times he said the next move in rates was likely to be up, "rather than down", pointing to rate increases overseas and progress on jobs and returning Australia's unusually low inflation rate to his target band.

By February this year he was backtracking. Although it wasn't apparent in the published figures, the unemployment rate was about to begin climbing. Wage growth had been far weaker than forecast, inflation showed no sign of returning to the centre of his target band, and forecasts for global growth were falling.

More importantly, consumer spending, which accounts for six in every ten dollars spent in Australia, was extraordinarily weak, growing at less than half the usual rate, as households "responded to this extended period of weaker income growth by progressively downgrading their spending plans".

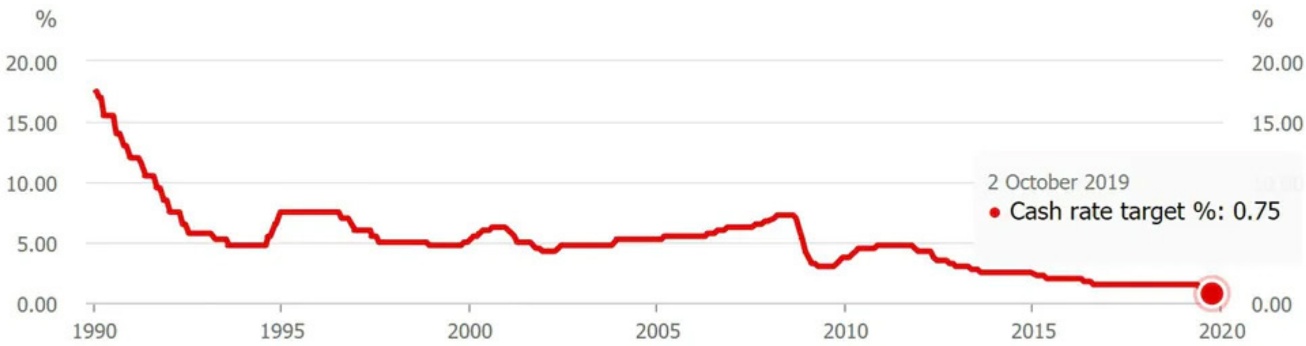
The probabilities of next move being up and down had become "more evenly balanced".

Two weeks after the May election he cut the cash rate, then cut it again, taking it to a new record low of 1%, anticipated by only two of the 19 economists surveyed by The Conversation just six months earlier.

The extra cut announced on Tuesday is because the last two didn't do enough.

House prices have begun to move up (as would be expected with lower rates) but borrowing is growing only slowly, and home building is weak. The Australian dollar is low (in part because of the lower rates), which should help make Australian businesses competitive, but they are not keen to borrow.

Since the last Reserve Bank board meeting we have learned that economic growth is shockingly low, just 1.4% over the past year, the weakest since the global financial crisis. Household spending



is barely keeping pace with population growth.

Lowe would like to believe the economy has reached "a gentle turning point". He told a community dinner in Melbourne on Tuesday night the board thinks it might have.

There are a number of factors that are supporting this outlook. These include the low level of interest rates, the recent tax cuts, ongoing spending on infrastructure, signs of stabilisation in some established housing markets, and a brighter outlook for the resources sector.

But they will need help. The bank believes the economy is capable of producing an unemployment rate of 4.5%. Instead it has been climbing, to 5.3%.

HOW THE CUTS WILL HELP

The cash rate is determined by the rate the Reserve Bank pays banks who deposit with it overnight. It drives almost every other rate, including the rates banks pay retail depositors, which help determine their cost of lending.

They don't have to cut their mortgage and business rates in line with cuts in the Reserve Bank cash rate, but they usually do.

The big banks played a game of chicken yesterday, each waiting for the other to move. The Commonwealth Bank moved first, offering just 0.13 of the 0.25 points, followed by the National Australia Bank, which offered 0.15 points.

The real action is in the discounted rates that target borrowers for whom they matter. Before Tuesday they averaged 3.46%. Some were much lower. HSBC Australia wanted just 3.17%. If it passes on Tuesday's cut in full it will charge only 2.92%, offering the first Australian mortgage rate in history beginning with the number "2".

There's every reason to believe the cuts will help. Even if Australians don't borrow more to buy houses, they will be able to use the historically cheap credit embodied in their house loans to buy other things, such as solar panels whose payoff period will have shortened dramatically.

Since June many mortgage-holders will have saved A$150 on monthly payments.

Sure, confidence and decent wage growth would help, but given how indebted many Australians are, low mortgage rates will do quite a bit on their own.

WHY THEY'LL CONTINUE

Governor Lowe made it clear on Tuesday that they will have to stay low for "an extended period". A signed agreement with the treasurer requires him to keep them low until unemployment falls and inflation and economic growth return to return to normal levels.

He would like the government to help by boosting spending. He often mentions spending on infrastructure. But his employment contract requires him to use the cards he has been dealt. If the economy is weak, he is required to boost it using the instruments he has.

That's why he says he is prepared "to ease monetary policy further".

If needed, he'll do it as soon as next month, cutting the cash rate to 0.5%. If more is needed beyond that, he will get ready to use so-called unconventional measures of the kind being used overseas, buying government and corporate bonds in order to force even more money into Australian's hands.

There's no reason to believe that the tools he has won't work, and every reason to believe he'll keep using them.

Why commercial owners and tenants should claim depreciation

BRADLEY BEER
CEO, BMT Tax Depreciation

Starting a business can be a costly venture but there are ways to reduce the costs involved.

Whether you own a commercial property or are leasing the building, you could be entitled to thousands of dollars in depreciation deductions.

Commercial property owners and their tenants are entitled to claim depreciation deductions for the wear and tear of the building structure via a capital works deduction, and for the plant and equipment assets contained within the property.

Capital works deductions refer to the building structure and the items the Australian Tax Office (ATO) deem to be permanently fixed to the building such as bricks, walls and basins.

The depreciation rate for capital works deductions will vary based on the type of property and its construction commencement date. These deductions can generally be claimed by the property's owner, rather than the tenant.

Plant and equipment assets are items that are easily removable such as carpet, blinds and shelving. These deductions are generally calculated using an effective life provided by the ATO and can be claimed using the prime cost or diminishing value method. However, there are additional incentives that may be available for small and medium sized businesses.

Both property owners and tenants are eligible to claim depreciation for plant and equipment assets. Owners of the building can claim on assets they own while tenants can claim on any fit-out they install from the starting date of their lease.

Depending on lease conditions, a tenant may be required to remove assets prior to vacating. In this instance, scrapping can be applied in which the tenant can claim any remaining depreciable value. However, assets left behind by a previous tenant may also be available to be claimed by the property owner.

Given both parties can claim deductions at the same time, it's important for owners and tenants to contact a specialist quantity surveyor such as BMT Tax Depreciation to request a tax depreciation schedule.

A BMT Tax Depreciation Schedule lasts 40 years, considers industry-specific legislation, provides a range of depreciation methods and includes a property inspection. The schedule is 100 per cent tax deductible and allows owners and tenants to boost their cash flow.

> ***Tenants can claim on any fit-out they install from the starting date of their lease.***

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.

news.com.au

Sign that property markets are in recovery mode, with investors getting their mojo back

Investors were among the first to flee when property markets began to tank two years ago. Now, they're back and feeling confident again.

Read the article

your investment property

Non-Major Lenders Gain Traction Amongst Investors

Around three in five property investors are now likely to consider a non-major bank due to the difficulties of obtaining investment financing and the conclusion of the royal banking commission, said PIPA chairman Peter Koulizos.

Read the article

The Sydney Morning Herald

Melbourne high-rise apartment prices lag houses by 50 per cent in some suburbs

Melbourne high-rise apartment prices have underperformed houses by more than 50 per cent in most suburbs in the past 10 years, amid concerns construction defects and cladding issues could lead to further falls in units.

Read the article

yahoo! finance

The 'wellness' property trend that's sweeping the globe

Australians are concerned about living standards – and property investors have been advised to take note.

Read the article

new members

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

PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA

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- JOANNA NATOLI, *The Rental Specialists*
- MAXWELL PHELPS, *Golden Eggs Homes Loans*

INDIVIDUAL MEMBERS

- HARRY MORGAN, *Great Australia Property*

QPIAS

- VISH UTTAM, *Xperience Realty*
- KAREN FORBES, *PMC Property*

CATE BAKOS
Cate Bakos Property, QPIA,
and REBAA president

When is an investment property a bad performer?

During the week, I had the task of reviewing an investor's portfolio.

She had secured her properties without my help, but had a sizeable portfolio with mixed styles, locations and even had an interstate investment in the list.

It's important to note her work-timeline.

She had held these properties for over a decade; one for over 20 years, and had embarked on a consistent acquisition plan every couple of years to amass the portfolio that I had on a spreadsheet, sitting on my desk.

She wanted to be in a position to retire in about five years' time.

CASH FLOW WAS CRITICAL

The first few were great performers in my view. They had delivered the *important four* attributes well:

1. Healthy capital growth,
2. Rental return in line with the expected gross rental yield for the area and dwelling type,
3. Continuous rental occupancy with quality tenants,
4. Reasonable maintenance expenditure demands.

The fourth was a little more interesting because the landlord had opted to lease out the one-bedroom unit on an Airbnb platform with a third-party service provider.

There is nothing wrong with this approach, provided the following five issues do not strike:

- Owners Corporation restricting Airbnb or creating issues for the owner,
- Insurance cover being in question due to the nature of, and arrangement for the short-term rental,
- Cost of set up, furnishing, cleaning and provisions eclipsing the benefit of the short-term rental income,
- Tenants causing headaches for the owner (complaints, bad reviews, damage, etc.)
- Occupancy rate being unreliable or insufficient for owner's cashflow.

There are a lot of possible issues here, and it is for these reasons that we tend to avoid short-term rental suggestions for mainstream properties.

When I quizzed the landlord, she agreed that the occupancy rate she'd been quoted by the third party was in fact quite higher than actual.

When we calculated her costs and income, her profit was break-even when contrasted against the going rate for a standard residential 12-month lease rental income.

This arrangement had cost her in furnishings, appliances, more risk and more headache.

All this aside, though, the property was fine. It was well-located and despite being at the tougher end of the banks' tolerable-internal-floor-size spectrum, this property was a good little performer.

The metrics started to bother me when I considered her later acquisitions, and I had to ask myself the question: "Are these properties worth keeping?"

We run a business that is broadly

> ***We tend to avoid short-term rental suggestions for mainstream properties.***

based on helping clients with a buy and hold strategy. We aim for A-grade assets, are always mindful of cash flow implications and we pride ourselves on identifying characteristics that will preclude a property from being an ideal fit for our clients' individual portfolios.

The idea of canning a property, only to write off the stamp duty, suffer losses (if the performance has been that dire), and attract marketing and sales costs is a last resort.

But when should the buy and hold strategy be upturned?

How badly does a property have to perform to be written off?

IS IT A LEMON?

If a property has experienced enticing capital growth but is demonstrating a sluggish rental return, it could be forgiven (pending the owner's cash flow circumstances).

And, likewise, if a property is smashing out a positive rental return after costs, it is by definition a cash flow-positive asset.

I've met plenty of owners who have listed a good investment for an immediate sale after some heady expenses or troublesome tenant tales, too.

None of these reasons in isolation are necessarily good reasons to sell.

But when a property is delivering bad news on multiple fronts, (or worse still, all of these fronts); and particularly if the chances of positive change are not apparent on the horizon, it might just be time to throw in that towel.

A good reason for an investor to sell can be when it is obvious that their money, (after purchase and selling costs are taken into account) could be working considerably better for them if it was put into an alternative property.

Property is a reasonably forgiving asset; even a B-grade property can perform.

But when the longer-term growth has been limited, zero, or (gulp) negative, and the cash flow is also negative, I have to ask a basic question, "Is it time to let it go? This property is costing money to hold, and it's not delivering any benefit in return."

It is important to recognise the attributes that can lead a property to under-perform, too.

Visible things such as an unsafe area, an unattractive address or a poor orientation are some examples.

But invisible things such as bank policy limitations, challenging title types: (for example, Company Share or Stratum which banks hate), challenging zone types, covenants, easements or compulsory acquisition orders (to name a few) can doom a property from the start if they cannot be removed.

Investors should be patient and remind themselves that property investment will always present challenges here and there.

However, when the property is underperforming longer-term, costing an unfair amount of shortfall, throwing up significantly expensive maintenance issues, and causing a tenant headache beyond a Panadol-fix, it might be time to ask the hard question.

Love the tech, but live your life

MARK CARTER,
Director, GLOW Academy

Given my career in human development began in the travel industry I was delighted to recently read one of the preserved sleeper rail routes in the UK had been updated without losing the authenticity of the experience itself.

The overnight trains departing London heading to my pseudo motherland of Scotland are simultaneously one of the last standing in this rail space it seems.

Sleeper trains, cruises and similar in travel and tourism, are a classy, romantic last bastion of the "old made new" in the experience economy.

When people think about travel in the digital age they instinctively want to speed it up and make everything happen quicker. That said, there are worldly aspects we intuitively still refuse to concede to the trigger-finger pace of the digital era.

It's doubtful you'd rush fine dining. Well, unless you're an influencer who only cares about snatching a series of good-looking pictures to feed your starving crowd of followers.

Aside from that, you'd likely score down any accelerated exclusive gustatory experience as deep down you want to appreciate the sacred time spent enjoying the morsels as they pass your palate as your olfactory and kinesthetic senses are engulfed.

Movies are the same, Tropfest and Pixar short films aside, mainstream cinematic storytelling is unlikely to ever be edited to a five to 10-minute snapshot.

We don't want them to be. Chill time on the couch or a date night with your lover simply wouldn't be the same. Besides, how can you be expected to demolish a super size tub of popcorn, even if split between two, if the movies credits are rolling before any meaningful storytelling has even begun.

HOW DOES TECH RELATE?

In some studies, it's estimated people are spending as much as 11 hours each day with their noses buried in personal devices and screens.

Technology and innovation are an important aspect of our current world, yet technology is not the experience itself. Unless, of course, you're playing with VR or something like. And even, then, virtual reality, a superb tech that can help educate and expand awareness in so many ways, is not akin to the thing itself.

That sleeper train will always be preferred in actuality, with its full panoramic surround sound, as opposed to being artificially experienced with a terminator-styled ski mask wrapped around your head.

Technology is a great enabler to quench our need for speed in some ways: improving process, capturing documentation or eliminating repetitive data forms.

But what tech cannot do is make you more intelligent, more aware, more fulfilled. Sorry, the Matrix is today and will always be fictional.

We are hard wired to experience our world through the faculties

> ***People are spending as much as 11 hours each day with their noses buried in personal devices and screens.***

> ## *It takes our attention away from our real world.*

of all our senses, channeling the archives and connections we create in our minds forever from a sensory perspective.

Our brain is the most under-estimated piece of technology on the planet.

It is a super-computer in its own right, capable of performing 38,000 trillion operations in a single second. It can scan your continual lifetime of experience hundreds of times swifter than the efficiency than any digital enabled memory, all in a blink of an eye.

The brain is so finely engineered that no one can blueprint, build or replicate it. As evolved as we may be, we're still only scratching the surface of our understanding.

NO TIME FOR BIG IDEAS

The problem with being too absorbed in technology is it takes our attention away from our real world. Many of the subtleties that form the basis of cognitive behavior, trigger memory or encourage eureka moments of insight are numbed through the white lights, bombardments of status updates or marketing messages.

This includes a very important one – our sixth sense, which is being the faculty of common sense!

Knowledge learnt, absorbed, then put into practice with consistency is how behaviour and mastery are achieved.

We should learn from the titans of tech. many of whom are careful or restrictive in how much their creations are included in their own lives.

Whilst mass populations binge, some of these titans are moving away from their inclusion completely.

Chamath Palihapitiya, a former vice president of user growth for Facebook, has gone as far publicly to express his regret for helping to build tools that "destroy the social fabric."

Even going as far as to say that "The short term, dopamine-driven feedback loops that we have created are destroying how society works. No civil discourse, no co-operation, misinformation, mistruth."

Many people are trying, often with tech somewhere at the root cause, to shortcut the very thing that will help them grow. Experience!

It's possible to accelerate your learning, but you cannot shortcut it, lived experience, including our failures, is what allows success and mastery to thrive.

Even those "Aha!" moments in life – the big discoveries and breakthroughs – require a time out.

The word "eureka" is attributed to the ancient Greek scholar Archimedes. His brain unexpectedly stumbled on the breakthrough about the idea of displacement and up thrust, whilst he leisurely climbed into a relaxing bath.

So, back to those sleeper trains: learn to slow down amidst the noise, hive and deafening humdrum of daily life. Much can happen, even in those frustrating moments of commute or transit. Insights are arrived at through study, absorption, conscious action and taking time out.

The brightest amongst us are learning, then leading the way, to find a healthier balance.

Leverage tech, but not at the expense of being present.

We are human beings in a digital era, not digital beings in a diminishing period of humanity.

Embrace the tech that improves quality of life, and can at time remove some of the repetitive mundaneness we all face, but not at the expense of submersing yourself and senses into life itself.

Your life should be a retrospective sensory joy ride of feelings and experiences, good, bad, or otherwise.

Technology is not the emancipator you seek – the true emancipator that liberates your soul are your senses, your humility, and humanity.

DON'T GET STUNG BY A SPRUIKER!

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