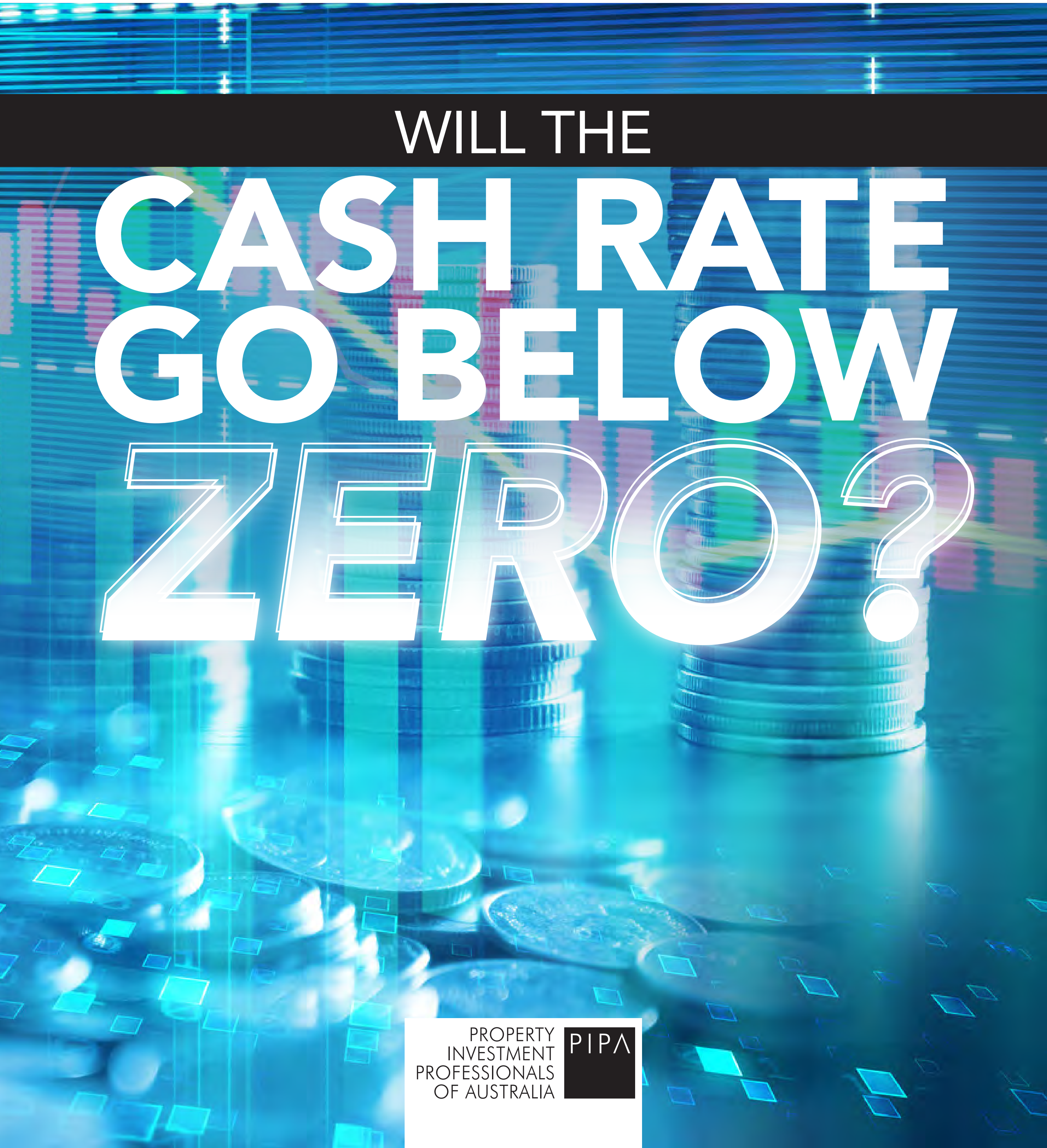
PIPA ADVISER

ISSUE #16

For members of the Property Investment Professionals of Australia

WILL THE CASH RATE GO BELOW ZERO?



PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA

PIPA *mission:*

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

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

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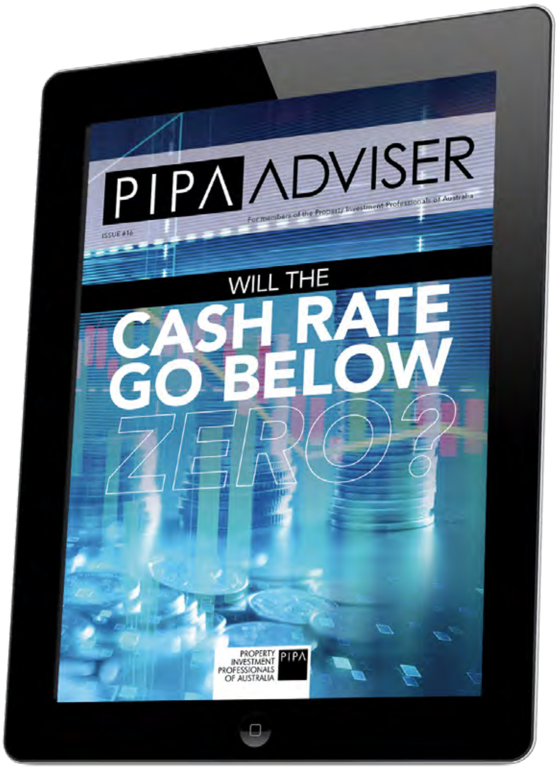


Have your say in this year's investor survey

Welcome to the latest issue of the PIPA Adviser. As you're no doubt aware, the 2019 PIPA Property Investor Sentiment Survey is now open.

Please help us make this survey as far-reaching and insightful as possible by passing it on to your database to complete.

As per previous years, we're not asking for any contact information for those who complete the survey, which means your valuable databases remain protected.

This survey offers you, as a valued member, extensive insights into property investor trends and sentiment, which will be of great value in shaping your business' direction in the months ahead.

It's also an important initiative that will support PIPA's ongoing lobbying efforts on critical issues such as negative gearing and property investment advice regulation, as well as supporting the ongoing awareness of PIPA and the property investment expertise our members offer.

The link for the survey is here or if you need any more information please contact Karen Millers via karen@pipa.asn.au

The survey closes on Friday 6 September.

I'm also happy to announce that the 2019 PIPA Melbourne breakfast seminar will be held on Thursday 31 October at the Sofitel Melbourne on Collins.

This year's speakers include Empower Wealth's Ben Kingsley, proptech entrepreneur Kylie Davis, as well as business coach Mark Carter – it's a line-up you really don't want to miss!

Keep an eye out for the event marketing very soon.

As we head into the spring selling season, I'm very pleased to say that the property investment sector is in far better shape than it was this time last year.

We have improved market confidence as well as an easier lending environment.

I know that many in our sector struggled to remain afloat during last year's difficult market and lending conditions, so I am grateful that the tide is now turning, and we can all forge ahead in making our businesses successful and serving our clients.

Until next time, yours in professionalism.

PETER KOULIZOS
PIPA CHAIRMAN

NICOLA MCDOUGALL
Editor, PIPA Adviser

Legislation amendments under way

Industry bodies had their say on the draft *Residential Tenancies Regulation 2019* (NSW) in August, with a number of proposed changes on the table.

NSW Fair Trading's website sets out some of the changes in the draft regulation, which include:

- Expanding the list of material facts that landlords or their agents must not knowingly conceal from a prospective tenant to include drug crimes
- Prescribing the manner and the period for landlords to carry out repairs to a smoke alarm, and prescribing the conditions under which a tenant may replace a battery in a smoke alarm
- Establishing a list of minor alterations that a tenant can carry out, where it would be unreasonable for a landlord to withhold consent, and specifying which alterations may be carried out by a qualified person
- Providing mandatory terms that cannot be modified or excluded from fixed-term tenancy agreements of 20 years or more
- Increasing the limit on the monetary jurisdiction of the NSW Civil and Administrative Tribunal
- Providing an option for a five-year fixed term in the standard form of agreement to encourage landlords and tenants to consider longer term leases
- Updating the standard form of residential tenancy agreement and condition report
- Expanding the list of offences under the Act for which penalty notices may be issued and increasing the penalty amount that may be imposed
- Simplifying clauses to make it easier to read and to improve consistency

"As with the statutory review of the *Residential Tenancies Act 2010* (NSW), REINSW is focussed on achieving fair and equitable outcomes for all stakeholders," REINSW CEO Tim McKibbin said.

"Over one-third of NSW households rent their homes. Therefore, it's important that the proposed regulation meets the needs of tenants and landlords/investors, as well as the agents who manage the properties."

Currently, reforms relating to domestic violence as set out in the *Residential Tenancies Amendment (Circumstances of Domestic Violence) Regulation 2018* (NSW) – which commenced on Thursday, 28 February 2019 – are the only reforms derived from the Amendment Act that are in force.

OFF-THE-PLAN BUYER PROTECTION

The Victorian Government has also passed new laws that will remove the ability of developers to exploit buyers by intentionally delaying building projects so they can use sunset clauses to rescind residential off-the-plan property contracts and re-sell the

> ***New laws that will remove the ability of developers to exploit buyers.***

properties at a higher price.

The *Sale of Land Amendment Act 2019* amends the *Sale of Land Act 1962* (the Act) to require developers to obtain the purchaser's consent, or the permission of the Supreme Court of Victoria, before exercising a sunset clause.

Sunset clause amendments apply from 23 August 2018 and:

- The legislation applies retrospectively from 23 August 2018 to protect purchasers who have existing residential off-the-plan contracts, or whose contracts may have been rescinded after that date.
- As of 23 August 2018, a vendor (the developer) must have the purchaser's written agreement to legally rescind a residential off-the-plan contract using a sunset clause. As of 4 June 2019, a vendor may also seek an order from the Supreme Court of Victoria to allow them to exercise a sunset clause.
- A rescission effectively unwinds the contract as if it never existed and returns the parties to their original positions.
- If a vendor attempts to rescind a contract using a sunset clause, the rescission will not be valid unless it occurred with the purchaser's consent or with the express permission of the Supreme Court.
- Residential off-the-plan contracts that were validly rescinded by vendors under sunset clauses prior to 23 August 2018 are not covered by the reforms. Concerned purchasers in these circumstances should seek legal advice about their options.

While the restrictions on sunset clauses apply from 23 August 2018, all other reforms in the Act will be implemented by no later than 1 March 2020.

"PICA welcomes the changes to legislation in Victoria regarding sunset clauses on off the plan apartments," PICA Chairman Ben Kingsley said.

"Given the cladding and structural issues being experienced in Victoria and across Australia, this move further protects the buyer from unscrupulous developers looking to profit further from old sunset clause legislation

"For too long the contractual terms have been too much in favour of the developer, so this new legislation is a positive step to give buyers more protection when committing to buy an off the plan apartment."

For more information, please go to Sale of Land Amendment Act 2019 – Legislation update.

KIERAN CLAIR
Editor, PIPA Adviser

SA – The Quiet Achiever

Sydney and Melbourne like to trumpet their successes by headline grabbing at every opportunity. "Look at me, I've risen 15 per cent this year!" they'll blare out in gaudy displays of showmanship.

And when things turn sour, the drama only gets more flamboyant, "Oh No! Down 10 per cent in eight months. It'll be a catastrophe for every Australian!"

It's understandable, to some degree. When our two biggest capital cities host around 60 per cent of the nation's property transactions, their value shifts can feel seismic. But investors willing to step beyond their borders have discovered other centres with more to offer.

Case in point – around 1160 kilometres west of the Sydney CBD sits a city you may have heard of. It's been chugging away comfortably on the property price graph while maintaining a modest disposition.

Adelaide! The South Australian capital is one of the country's least volatile and most promising real estate centres, and that's a good thing for buyers willing to look beyond online, click-bait headlines, according to PIPA Chairman, Peter Koulizos.

"It doesn't hit the headlines and is under many people's radar, but the property market has been doing quite nicely and is forecast to do relatively well," Mr Koulizos said.

With a population of around 1.3 million, Adelaide's diverse economic base, commuter-friendly layout and café-culture lifestyle makes it a handy option for low-risk, long-term investors.

According to recent data from realestate.com.au, Adelaide's median house price sits at $450,000, while units recorded

> ***The South Australian capital is one of the country's least volatile and most promising real estate centres, and that's a good thing for buyers.***

$329,500. These are enticing price points for those looking to diversify away from more expensive localities.

And while annual price performance throughout much of the past 10 years might have been considered 'underwhelming' by some pundits, results in more recent times had been positive, according to Mr Koulizos.

He noted infrastructure spending – one of the key pillars in a strengthening market – is on the rise and set to help boost value prospects in the coming year.

"There's a significant amount of road and rail infrastructure happening in South Australia, especially in Adelaide," he said.

"The precinct currently includes the new Royal Adelaide Hospital, University of Adelaide Health and Medical Sciences Building, University of South Australia's Health and Innovation Building and the South Australian Health and Medical Research Institute (SAHMRI). It will grow even larger with the new Women and Children's Hospital and the second SAHMRI building."

Industry announcements set to improve employment and local-business prospects have also been revealed for South Australia and its capital, according to Mr Koulizos.

"South Australia also has the lion's share on the new defense contracts, and the new Australian Space Agency will be headquartered in Adelaide.

"All of this infrastructure requires highly-skilled workers, and highly-skilled workers earn high incomes – high incomes translate to higher rents and property prices."

Stepping beyond the capital, Mr Koulizos said there's more to be done to encourage regional growth, however there are flow on benefits to the state as a whole that come from a stronger Adelaide market.

And among the townships are a few worth your consideration.

"There is not much happening regionally but in the short to medium term, keep an eye on Ardrossan, which is located just 1.5 hours from Adelaide, on the Yorke Peninsula.

"The Hillside copper mine should receive all its necessary approvals by the end of this year, creating hundreds of jobs and boosting demand for property in this area."

Nick Smerdon, property valuer with Herron Todd White Adelaide, was more balanced in his assessment, although he remained positive for Adelaide's prospects.

"There's a fair bit of development going on at the extremities of Adelaide and there's new infrastructure to support that growth, however as a general observation, the market does seem to have a slowed a little of late. That could be seasonal of course, so we'll have a greater understanding heading into Spring and through the back end of the year," Mr Smerdon said.

He said the median house price had certainly been on the rise over the last couple of years, but felt as though it'd been propped up by the inner- and middle-ring suburbs.

"Sometimes media outlets pull out the median house price (for Adelaide) and say everything looks fantastic, however when you dig a little bit deeper and look in specific areas, it certainly isn't across the board.

"Once you get out about 15 kilometres from the city, things have remained reasonably stable and, in some cases, softened slightly."

Despite his more measured stance, Mr Smerdon said Adelaide remains a market to watch throughout the remainder of 2019.

"The viewpoint 24 months ago was, 'Everything is going fantastic, but when is it going to slow down?' and I think we may have hit that point where we're stabilising.

"We're optimistic that's it's going to remain stable with potential for some slight growth at the back end of this year – but it all depends on that third quarter data which will show how we've reacted to the end of the election cycle and moves to loosen those tight credit restrictions."

The Hillside copper mine should receive all its necessary approvals by the end of this year, creating hundreds of jobs and boosting demand for property in this area.

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.

SMART PROPERTY INVESTMENT *By investors for investors*

Property in 2060: What will it look like for investors?

A new report projects what major shifts in the economy need to take place to ensure growth, and the make-up of the property market factors significantly in these changes.

Read the article

your investment property

Legislation For Property Sector "Vital"

The Property Investment Professionals of Australia (PIPA) said that it is looking forward to work with a Coalition government to secure vital legislation for the sector.

Read the article

YAHOO! FINANCE

Alarm bells: 6 warning signs you're being ripped off on your investment property

The worst of the national property downturn seems to be coming to an end, with Melbourne and Sydney prices recording upticks in June, although dark clouds still hang on the horizon.

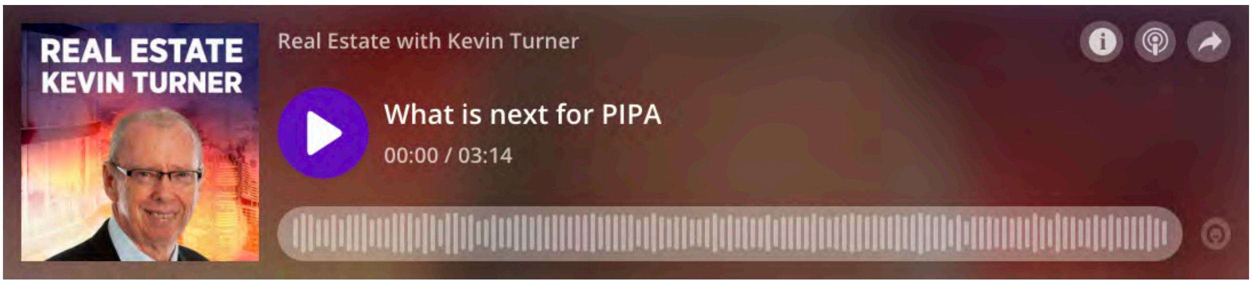
Read the article

YAHOO! FINANCE

3 ways to make $20,000 without leaving your house

You're working harder but wages aren't budging; the kids take up all your time; and the mortgage is eating not only your paypacket but also your diminishing savings.

Read the article



new members

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

CORPORATE MEMBERS

- MARKO KRUGER, *MPI Property Investment School*

QPIAS

- SYBIL LEUNG-CHAN, *Adviseable*
- LINDY LEAR, *Rocket Property Group*

pipa profile

***Garry Wolnarek** of Brisbane's Umbrella Accountants decided five years to specialise in property taxation advice and wishes more in his industry did the same.*

CAN YOU PLEASE TELL US MORE ABOUT YOUR BUSINESS?

I founded Umbrella Accountants in 2013, situated at Shailer Park and North Lakes in Brisbane.

Previously, I was the founder of AZ Tax Advisors in 2000 in Redcliffe.

I hold a Bachelor of Business in Accounting from Monash University, a Public Practice Certificate and am a Fellow of the Institute of Public Accountants (FIPA) and a registered tax agent.

I have 20 years of public practice experience and really enjoy working with clients around their property issues.

About five years ago, I decided to really focus on property taxation and the residential property industry.

We like to be able to provide property tax advice that may not be readily available at the suburban accountant level, which also it allows us to differentiate from other suburban accountants.

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

Originally, I got my tax agent registration back in 2000.

Back then I was a bit of a GP – General Practice – advising and completed tax returns whichever client came through the door.

However, unknowingly I really enjoyed talking to clients around property taxation and continued to attract clients with rental property tax returns.

About five years ago, I asked myself what did I really enjoy doing, and I realised it was the residential property industry that I had a keen interest in, not just doing tax returns.

I was also fascinated by the various stakeholders and how their accountants would be involved within the residential property industry:

- For mum and dad investors.
- Various tax issues around property developments for small developers.
- All the stakeholder business and tax issues such as for:
  1. Sales and marketing professionals, real estate agencies, promoters, buyers' agents, property strategists, and, of course, the property spruikers!
  2. Builders and trades
  3. Professional consultants,
  4. Finance brokers, etc.

I realised that the more I could understand the motivations, KPI, income and expenses of each group, the better I'd be at advising property clients.

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

I stumbled across PIPA as I was looking for property industry information, did some research and thought that this could provide a form of recognition that we are

> ***I was looking for some kind of recognition that I was not just a tax agent "general practitioner.***

property-focused accountants.

I was looking for some kind of recognition that I was not just a tax agent "general practitioner", but rather a tax agent with a property speciality.

PIPA appears to provide that recognition that wasn't available otherwise.

As an accountant, what are some of the reasons in your opinion why others in your profession should consider joining PIPA and/or learn more about property investment for the benefit for their clients?

I think not enough accountants specialise in property taxation, as it's so easy to be a GP than to specialise.

Alternatively, many accountants gravitate to a particular business industry, such as motor mechanics, doctors, etc. or get involved in financial planning, which has historically steered clear of direct property advice given it's not been considered a financial product within most dealer groups list of products they can advise on.

There just doesn't appear to be much in the way of formal recognition and qualification around tax accounting within property.

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

Property tax information is limited and generally buried amongst all sorts of taxation information. PIPA could provide specialist property tax information.

However, the property taxation information would need to start at a high-level overview, and then drill down in layers.

I find that a lot of tax law and information drills down too quickly, thereby losing the big picture overview and connections to other tax-related laws.

Much of property taxation is multidimensional, whereby you need to consider various possible tax issues simultaneously to get the right answer.

That is, is it passive, mere realisation, active, profit motives, trading, revenue versus capital, GST, state taxes, foreign tax issues, ownership tax structures, etc.

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

Yes, if they want to specialise in property advice and taxation, then PIPA would be a great start.

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

We really want to provide greater education services around property taxation and advice.

We're looking to create a lot of short videos around property taxation – in a style that is simple, entertaining, and in-line with our motto, "Think smart, talk simply".

We'd like to provide a taxation resource to all interested about how taxation plays an important part in your property investment or property business journey.

We see a lot of clients getting only half the information, and much of the tax information online or provided by the typical suburban tax agent may be too narrow, therefore, it's not seeing the bigger picture.

There is a lot of property bought, sold, developed in Australia each year, and if we could help provide a piece of taxation advice covering many of the typical and emerging issues the industry would benefit.

We don't want to be seen as in the pocket of any group, rather that our information is free from fear or favour of any vested group.

Will the cash rate go below zero?

STEPHEN KIRCHNER
Program Director, Trade and Investment,
United States Studies Centre,
University of Sydney

With its official cash rate now expected to fall below 1% to a new extraordinarily low close to zero, all sorts of people are saying that the Reserve Bank is in danger of "running out of ammunition." Ammunition might be needed if, as during the last financial crisis, it needs to cut rates by several percentage points.

This view assumes that when the cash rate hits zero there is nothing more the Reserve Bank can do.

The view is not only wrong, it is also dangerous, because if taken seriously it would mean that all of the next rounds of stimulus would have to come from fiscal (spending and tax) policy, even though fiscal policy is probably ineffective long-term, its effects being neutralised by a floating exchange rate.

The experience of the United States shows that Australia's Reserve Bank could quite easily take measures that would have the same effect as cutting its cash rate a further 2.5 percentage points – that is: 2.5 percentage points below zero.

RESERVE BANK CASH RATE SINCE 1990

In a report released on Tuesday by the University of Sydney's United States Studies Centre, I document the successes and failures of the US approach to so-called "quantitative easing" (QE) between 2009 and 2014.

It demonstrates that it is always possible to change the instrument of monetary policy from changes in the official interest rate to changes in other interest rates by buying and holding other financial instruments such as long-term government and corporate bonds.

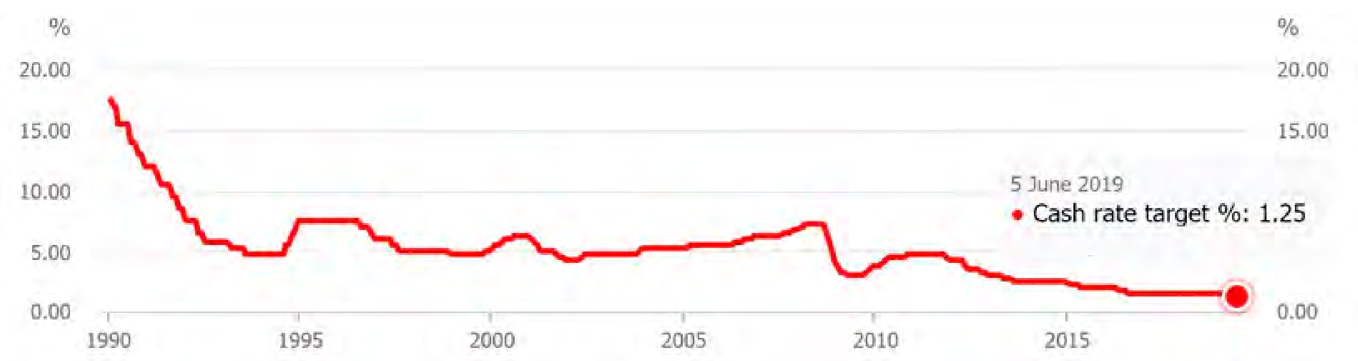
The more aggressively the Reserve Bank buys those bonds from private sector owners, the lower the long-term interest rates that are needed to place bonds and the more former owners whose hands are filled with cash that they have to make use of.

In the US the Federal Reserve also used "forward guidance" about the likely future path of the US Federal funds rate to convince markets the rate would be kept low for an extended period.

It is unclear which mechanism was the most powerful, or whether the Fed even needed to buy bonds in order to make forward guidance work. However in a stressed economic environment, it is worth trying both.

As it comes to be believed that interest rates will stay low for an extended period, the exchange rate will fall, making it easier for Australian corporates to borrow from overseas and to export and compete with imports.

The consensus of the academic literature is that QE cut long-term interest rates by around one percentage point and had economic effects equivalent to cutting the US Federal fund rate by a further 2.5 percentage points after it approached zero.



This article was originally published on THE CONVERSATION [Read the original article]

> ***People are saying that the Reserve Bank is in danger of "running out of ammunition."***

QE NEED NOT HAVE LIMITS...

Based on US estimates, Australia's Reserve Bank would need to purchase assets equal to around 1.5% of Australia's Gross Domestic Product to achieve the equivalent of a 0.25 percentage point reduction in the official cash rate. That's around A$30 billion.

With over A$780 billion in long-term government (Commonwealth and state) securities on issue, there's enough to accommodate a very large program of Reserve Bank buying, and the bank could also follow the example of the Fed and expand the scope of purchases to include non-government securities, including residential mortgage-backed securities.

It could also learn from US mistakes. The Fed was slow to cut its official interest rate to near zero and slow to embark on QE in the wake of the 2008 financial crisis. Its first attempt was limited in size and duration. Its success in using QE to stimulate the economy should be viewed as the lower bound of what's possible.

...EVEN IF IT BECOMES LESS EFFECTIVE AS IT GROWS

It's often suggested (although it is by no means certain) that monetary policy becomes less effective when interest rates get very low, but this isn't necessarily an argument to use monetary policy less. It could just as easily be an argument to use it more.

Because there is no in-principle limit to how much QE a central bank can do, it is always possible to do more and succeed in lifting the inflation rate and spending.

Fiscal policy may well be even less effective. To the extent that it succeeds, it is likely to push up the Australian dollar, making Australian businesses less competitive.

US economist Scott Sumner believes the extra bang for the buck from government spending or tax cuts (known as the multiplier) is close to zero.

Reserve Bank Governor Philip Lowe this month appealed for help from the government itself, asking in particular for extra spending on infrastructure and measures to raise productivity growth.

He is correct in identifying the contribution other policies can make to driving economic growth. No one seriously thinks Reserve Bank monetary policy can or should substitute for productivity growth.

But it is a good, perhaps a very good, substitute for government spending that does not contribute to productivity growth.

THREE MYTHS ABOUT QUANTITATIVE EASING

In the paper I address several myths about QE. One is that it is "printing money". It no more prints money than does conventional monetary policy. It pushes money into private sector hands by adjusting interest rates, albeit a different set of rates.

Another myth is that it promotes inequality by helping the rich to get richer.

It is a widely believed myth. Former Coalition treasurer Joe Hockey told the British Institute of Economic Affairs in 2014 that:

> *Loose monetary policy actually helps the rich to get richer. Why? Because we've seen rising asset values. Wealthier people hold the assets.*

But it widens inequality no more than conventional monetary policy, and may not widen it at all if it is successful in maintaining sustainable economic growth.

A third myth is that it leads to excessive inflation or socialism.

In the US it has in fact been associated with some of the lowest inflation since the second world war. These days central banks are more likely to err on the side of creating too little inflation than too much.

Some have argued that QE in the US is to blame for the rise of left-wing populists like Alexandria Ocasio-Cortez and "millennial socialism". But it is probably truer to say that their grievances grew out of too tight rather than too loose monetary policy.

QE has been road tested. We've little to fear from it, just as we have had little to fear from conventional monetary policy.

When data is your enemy

STEVE WATERS
Director, Right Property Group

The online age has brought a raft of benefits to investors. Nowadays, you can access a monumental pool of information – an incredible array of statistics and details that illustrate the state of markets.

You can go from large, big-data summaries down to minute details of individual property sale prices and descriptions.

This might seem great to the casual observer, however all this information can create a deafening roar of figures which could potentially cloud your judgment and lead to bad decisions.

So, when does the data become a hindrance rather than a help?

DATA CHALLENGES

The availability of data and statistics means everyone can form an opinion and then hang that opinion up on a tabulated set of results.

Unfortunately, there's a huge margin for error in just glancing at a percentage and assuming you know all the answers.

I believe the problem is two-fold.

Firstly, it's in data itself. While stats are great, they are simply a page of numbers. There's no degree of detail. The digits are just the result of multiple influences interacting. Sadly, users often fail to recognise that the outcome is less important than the process which brought it about.

This brings me to the second hurdle with data – the skill of interpretation. Unless you have enough experience to understand the process of how a set of results came to be, you aren't reading them properly.

The ability to cut through the coal and unearth the diamonds is valuable – for the unskilled, however, the mistakes can be costly.

ANOMALY SPOTTING

Being able to just recognise anomalies is, unfortunately, a half-way measure that can lead to trouble for amateur sleuths. Understanding why those anomalies occur is where skilled investors really make a profit (or avoid a loss).

When you notice a blip in the data that piques your interest, such as an uncharacteristically high capital growth rate or a tighter price discounting percentage, you must ask the all-important question, 'Why?'

Here's a simple example – say the median house price in the imaginary location of Smith St, Jonesvale is $400,000 in 2017.

Then in 2018, it's $300,000. What's happened here? You can't actually tell that from the stated 25 per cent fall in median values, can you?

Do your on-the-ground research. Canvas local agents and you'll discover there were three house sales in the street where two had extreme white ant problems and the other was an inter-family transaction.

Suddenly it makes sense. It was an abnormality. The devil was in the detail.

PROFESSIONAL PROCESS

When we, as professional advisors, gather data for interpretation, we approach it from multiple angles.

We start with macro-elements of national, state and regional numbers absorbing everything we can about property and the economy. This paints a broad picture of what's happening.

We use multiple data sources and combine them to look for anomalies out of our newly created data sample. We tackle supply and demand, vacancies, growth rates, yields, discounting and returns.

We then head toward the micro-elements including suburb, sometimes down to street level, looking at the same sets of metrics.

> ***What's often most important is the trend, not the result.***

You also need to dig deeper on the qualitative stuff. Speak to local agents, property managers, council members, town planners and others.

This is where you get your answers.

Here's a pro tip, too – what's often most important is the trend, not the result.

So, use the same source anytime you're comparing data over a time period and track the trends, not the absolute figure. If a median price is $1.3 million, that doesn't say much. But if a median price has reduced by three per cent per quarter for the past four quarters – that might be a story.

COMMON HAZARDS

While there are probably multiple hard-to-spot reasons why data might give an unreliable outcome, there are a few common traps worth looking for.

Firstly – check who's supplying the data. Use confirmed analytics where possible, not speculation or prediction from unreliable sources.

Next – gather data from a range of sources but be aware, each data house can apply its own rules on how they calculate figures. For example, a suburb's 'median house price' from one data source may include semi-detached units. This is despite the fact another data source doesn't include them in the 'house price' measure.

Next, check the sample size. If you're looking at annual average results for suburb, but they're only based off three sales in the year, the outcomes will be highly unrealistic. The larger the sample, the more reliable the result.

Thirdly – try and be detailed about what you're seeking. Not all property is the same and comparing and contrasting 'like with like' helps sharpen the outcome. Are you studying results for houses, units, townhouses, duplexes or development sites? If it's houses, can you break it down by number of bedrooms, bathrooms and size of car accommodation? Keeping your sample consistent and defined helps boost the integrity of the result.

Also – be cautious of locational influences. For example, is there a high number of serviced apartments or short-stay student hubs in the suburb? If so, expect your rental and vacancy rates to be extraordinary compared to more traditional rental markets.

Lastly, be aware of when data was sourced and correlated. The more recent, the better. Delayed data will tell you about the past, but the further back it goes, the tougher it is to draw conclusions about your present and potential future.

FINAL ADVICE

If you are keen to learn more about data interpretation, that's great. I would encourage you, in the initial stages, to keep it as simple as possible. Break it down into basics and then spend some time 'on the ground' in your areas of interest so you can confirm the actual lay of the land against the numbers you've analysed.

Also – data interpretation can do your head in and become a whirlpool of figures from which there is no escape. Ensure you don't get a bad case of analysis paralysis by taking on so much data that you feel mentally drained.

Failing all else – rely on an expert. Learning to interpret figures effectively takes time and experience. If you feel overwhelmed, outsource it. Just contact a skilled professional and let them tackle the tough work.

What you need to know before renovating an investment property

BRADLEY BEER
CEO, BMT Tax Depreciation

Are you renovating an investment property? Renovating can increase rental yields and improve cash flow but there are important rules and regulations investors should be aware of before getting started.

For example, many investors who live in their property while renovating risk missing out on thousands of dollars in property depreciation deductions.

Property depreciation is generally the second biggest tax deduction after interest, though it's often missed by investors. This is because it's a non-cash deduction, meaning you don't have to spend money to be eligible to claim it.

The Australian Taxation Office allows owners of income-producing properties to claim depreciation deductions for the natural wear and tear that occurs to a building and its assets over time.

Depreciation can be claimed for a building's structure via capital works deductions and for the plant and equipment assets contained within the property.

According to legislation introduced in 2017, investors are unable to claim deductions for the decline in value of previously used plant and equipment found in second-hand residential properties.

If you live in your rental property while renovating, any newly installed assets will be classed as previously used. Therefore, you're potentially risking your tax benefits.

Investors who are planning on installing new plant and equipment assets should make these additions after they move out of the property and it is rented and income producing. This will ensure you're eligible to claim the maximum depreciation deductions available.

It's important to note the 2017 legislation does not affect buyers of brand-new property,

> ***Investors who live in their property while renovating risk missing out.***

> ***New walls, kitchen cupboards, toilets and roof tiles are also unaffected by the legislation changes.***

residential properties considered to be substantially renovated or commercial properties. With this in mind, brand-new property generally holds the most lucrative value for investors from a tax perspective.

Capital works deductions for structural assets such as new walls, kitchen cupboards, toilets and roof tiles are also unaffected by the legislation changes and can still be claimed by owners of income-producing properties. These deductions typically make up 85 to 90 per cent of a total depreciation claim.

When removing structural assets there may be remaining depreciation deductions available. A process known as scrapping can often be applied, allowing investors to claim these deductions in the year the items are removed.

Despite the 2017 rule changes, there are still lucrative tax deductions on offer for most investment properties. During the FY 2017/18, BMT Tax Depreciation found residential property investors an average first year deduction of almost $9,000.

To ensure you aren't at risk of missing out on valuable deductions, contact a specialist quantity surveyor to organise a tax depreciation schedule before starting renovations.

* 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.

What tenants really want... and will pay more rent to have

CLINT DOWDELL-SMITH,
General Manager, Bees Nees City Realty

With so many investors around the nation owning property in the Sunshine State capital, what are some of the must have's for Brisbane tenants?

What three things do you think Brisbane tenants really want in a home?

Make a note of them – and no peeking below! Did you have something like city or river views on your list? A swimming pool or an ensuite in the main bedroom maybe? Well, surprisingly, none of those even made the top 10 on their wish-list!

Our team surveys Brisbane's inner-city tenants every two years, asking how they choose their rental homes.

We've been doing this report since 2011 and the changes in demand make for interesting reading.

This year's survey had more than 300 replies and is again a great insight on how investors can best maximise demand for their properties.

The top 3 "must haves"

1. ONE OFF-STREET CARPARK

Forget all the creature comforts you might imagine, inner-Brisbane's tenants want at least one off-street carpark.

Rating this their number one feature every survey since 2013, it's evidence our city is short on carparking supply.

Those of you buying studios or one-bedroom apartments with no allocated car space will find a small tenant market for them. But the vast majority of tenants insist on having at least one.

2. STORAGE SPACE

Collecting 'stuff' seems to be a growing trend, so it mightn't surprise that storage space has been in our top five on every survey we've ever done.

Tenants want a place for boxes and bikes and golf clubs and old furniture – and who knows what else! If you have a storage cage or other dedicated area, please make sure your property manager mentions this in your ads.

If your garage is a separate lock-up, then that's seen as an extra opportunity for 'stuff' as well. Is there room for a storage locker in your apartment building's basement? Even extra cupboards inside your property are important to tenants.

3. OUTDOOR LIVING SPACE

And third on the list is outdoor living space. This has always rated very highly in our tenant surveys and shows Brisbanites like to spend time outside.

It's an entertainment space, a place to relax and, usually in an apartment, the only secondary living space where you can escape your flatmates or family! We've

> ***Inner-Brisbane's tenants want at least one off-street carpark.***

seen a number of new apartment towers built without external balconies, and we know these shiny glass towers can look very clean-lined and sexy, but our results show many locals will not choose that lifestyle.

Balconies, decks and courtyards are a bit hard to retro-fit in your rental property, but it's food for thought when you're buying your next one.

And it follows that improvements you make to those outdoor areas, for example adding a roof over a deck or even some simple privacy screening, would add value for your tenants.

AND HERE'S WHAT'S CHANGED MOST OVER THE YEARS...

So what of the big trends in tenant demand? Having **a home that's modern** has slipped eight spots since our 2011 survey – Brisbane's inner-city tenants aren't convinced they need new homes.

It's great news for many of us who own older properties, but our property managers' on the ground experience shows poorly maintained homes will sit vacant longer – tenant's expectations have shifted higher as so many new apartments have been completed.

So, while they might not nominate "modern" as important, they will skip past any place with worn carpets or bumped and marked paintwork.

Says one tenant: "Age of the home is not important but good condition is essential." Another made comment: "I always look at the kitchen and bathroom. These often need to be updated."

The item that more and more tenants are wanting might surprise you. This appliance was first invented in the 1800s and is one of the most affordable features a landlord can add to their property.

It's risen fastest through our surveys – and it's the simple **ceiling fan**! Rating even higher than air conditioning in bedrooms, we'd suggest it is more economical tenants (the ones who like a lower power bill!) that are seeking out fans. Many of us also prefer fresh air if we can get it, especially for sleeping, and we often have positive feedback where a home also has cross-ventilation.

Airconditioning is increasingly popular, however, and there's a definite price point where a home simply struggles to rent without it.

Keep in mind our survey is always carried out in May/June but with a vacancy at other times of the year this will be even more of a talking point for your tenants.

One tenant noted: "I think in Queensland air con is essential for me. Since moving here I've lived in a couple of places without it and it's been rough through summer."

THE "NO THANKS" LIST...

And what about the features a tenant won't pay more to have?

We might be a fitter generation, but tenants don't have much time for the poorly-equipped **gyms** in many apartment buildings.

Together with **pools** these two items have been at the bottom of every tenant survey we've done. Not a great result when you consider the costs to maintain these in your body corp levies...

WHERE DO BRISBANE TENANTS WANT TO LIVE?

So, what about location? Many of us choose suburbs we know when we invest, places we'd like to call home ourselves. But that mightn't always tick the location boxes for tenants. We know **access to work (and study)** is hugely important to inner-Brisbane's tenants, and with our CBD being the state's largest workplace, many want to stay close to the city centre.

But it's not quite that simple and our survey shows tenants rank **access to public transport** higher than being right next to their work. Says one tenant: "Like to be near the city, but not necessarily in the city... a short walk or ride is fine".

Remember this survey sample are converted city-dwellers so some of their answers are as expected: "Suburbs don't offer anything but quietness, Units near CBD are great for access and liveability."

But while many said lifestyle and things to do outside work were important, ("I prefer the vibe of the inner city"), tenants actually rated proximity to shopping far higher than entertainment options like bars and restaurants.

Mostly they're seeking convenience – "get me quickly to and from work and my everyday needs."