Are You Getting The Best Possible Return on Your Investment Property?

This Issue:
October 3, 2017

As rental increases fall further behind rising house prices, more property investors are feeling the pinch when it comes to adequate cashflow to sustain their housing portfolios.

Thank goodness for our virtually all-forgiving, ongoing low interest rate environment, which has kept holding costs relatively affordable, even as yields decline.

According to the latest CoreLogic data, many investors are counting their blessings if they can manage a 1.5 per cent return on their rental property at present. National yields have dropped by 23 per cent in the past five years, with up to 30 per cent declines in some of the major capital cities.

Investors already staring down the barrel of rising retail rates on their mortgages are no doubt starting to lose a little sleep right about now, as out of pocket expenses continue to rise, whilst their income stagnates.

Data from the ABS Census shows that in five years to 2016, Australia's median weekly rent rose from $285 to $335, or 17.5 per cent.

While most property experts will suggest you should be focusing on capital growth over short term yields anyway, the fact remains you still have to be able to hold onto your assets long enough to enjoy that value growth.

So what should investors keep in mind when it comes to consolidating their cashflow in these changing rental markets?

One goes up, while the other goes down

The supply/demand equation is what ultimately sets the benchmark when it comes to market values – both in terms of purchase price and rental achieved.

When there's a lot of buyer activity pushing up property prices due to heightened demand, rental yields naturally fall because they show as a percentage of the property's value.

Hence, when values rise by double digits in some neighbourhoods, but rents only increase in line with CPI adjustments of maybe 2 to 3 per cent maximum, we see a natural lag between the two.

Investors would do well to come to terms with this pattern of cyclical give and take growth between short and long term returns, accounting for such fluctuations in their financial forecasting and investment approach.

Keep on top of the markets

When conditions make it tougher to realise higher yields and a sustainable income from your property portfolio, it's a good idea to ensure you're achieving the best possible returns.

Establishing a fair market value for your rental property involves a similar process to deciding how much your house should sell for, or how much you should pay for an investment property. In other words, it takes a sound knowledge of the local real estate scene and considered analysis.

This is where an experienced property manager can be incredibly beneficial. Just as an independent buyer's agent can guide you in terms of true market value, or a real estate agent provides the vendor with a list of comparable sales, a property manager will know their market intimately and set rental prices accordingly.

They also have access to statistical and market data that's not freely available to the general public, including comparable properties.

Head over heart

Understanding your tenants and the market fundamentals in your area, will ensure the rental price on your property strikes that all important equilibrium; between what you need in order to sustain a sound cashflow position and what tenants are prepared to pay.

Given that you have a substantial vested interest in how much rent you want and/or need to achieve in order to make the mortgage repayments on your property, finding that balance can be challenging for investors. And if you ask more than prevailing market conditions suggest is reasonable, you risk alienating your 'bread and butter'.

Remember, 'top dollar' is attained via a combination of two things – consistent tenancies and consistent returns. In other words, you're better off having your property rented out for 52 weeks of the year at $500 per week and achieving $26,000 total rental income, than to risk 4 weeks vacancy chasing an extra $20 per week and only realising $24,960.

Don't panic yourself into a corner whereby you cut off your nose to spite your face.

Due diligence

To undertake your own rental appraisal, start by identifying at least 3 to 5 comparable properties – dwellings of a similar size, with similar features in the same vicinity, and do a general stock take of what's available as you check out the competition.

Seek advice

Ultimately though, the advice you receive from a property manager at the outset, along with ongoing guidance through annual rent reviews, will always hold more weight over empirical data, because they live and breathe your tenant market, not just the numbers.

A property manager can provide advice as to any cosmetic improvements you could make to your property in order to gain a higher rental price too. So although it might come at a small (tax deductible) cost, there's no denying that consulting the experts could mean the difference between struggling to make your monthly interest repayments and maximising your rental income and investment cashflow.

Just How Serious Is The Matter Of Mortgage Stress?

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Mortgage stress and household debt are growing concerns for Australian families. But just how serious is this issue, and is the "D" word a potential threat to the future performance of our property markets?

Recent analysis indicates that households across four of Australia's capital cities require six figure incomes to sustain the mortgage on a median priced house, without losing sleep over the repayments.

A RateCity analysis found that buyers in Sydney and Melbourne need to earn over $190,000 and $140,000 respectively, in order to dedicate less than 30 per cent of their income to an average size mortgage.

And while an apartment is generally the more affordable option, it still takes an income of more than $77,000 to comfortably afford the average priced unit in Melbourne, and $122,900 in Sydney.

Even more alarming is the deposit required for Sydneysiders to purchase a median priced home now, which at 20 per cent of the purchase price equates to a rather steep $235,000.

Meanwhile, six-figure salaries are also necessary for anyone buying the average house in Darwin and Canberra.

The house price – wage growth divide

So how much does the average Melbournian and Sydney resident earn annually? That would be $95,000 and $100,000 respectively. And while these salaries might appear rather generous, they don't quite stretch far enough if you're a singleton seeking a home of your own, without experiencing some form of mortgage stress.

The biggest issue is the ongoing, and ever widening, disparity between the rise in house prices and cost of living, versus the rise in real wage growth.

Although house prices have more than doubled in Sydney since 2008 (with Melbourne not far behind), the national weekly income has risen by a measly $27 for the same period.

University of Sydney lecturer Dallas Rogers suggests at least part of the blame for this imbalance lies with the property sector itself, and the lenders who've been feeding an ongoing demand for housing credit.

In other words, the businesses that have fanned the flames beneath some of our hotter markets, to turn a profit in these times of buoyant buyer activity, have assisted in the exponential escalation of housing values we've seen in the last five years.

"What this means for affordable housing and financial policy is that we need to do more than trying to get households to rein in their mortgage and household spending," says Rogers.

"We need policy to rein in the financial, mortgage, property development, and real estate sectors to change the structural dynamics that put people in mortgage stress."

How bad is it?

Researches have recorded an increase in mortgage stress in recent times; with ratings agency Moody's stating that home loan arrears have reached a five-year high.

And despite declining interest rates, Roy Morgan research found that 17.3 per cent of borrowers were experiencing mortgage stress in July 2017. While those who were considered "extremely at risk" increased from 12.4 per cent to 12.8 per cent in the 12-month period.

University of NSW City Futures Research Centre research fellow Chris Martin says, "Australian households are some of the most indebted in the world, and it's hard to see how servicing costs can get very much lower than at present."

Such a statement, when we appear to be on the precipice of a global interest rate rise push, is rather foreboding for the almost one fifth of Australians already struggling with their mortgage repayments.

As for just how bad it can get, Roy Morgan Research's industry communications director Norman Morris says, "The final impact will also be determined by what happens to household incomes, which are currently showing very modest growth."

In the meantime, cracks are also appearing in some of the wealthier postcodes, where in places such as Brighton (Melbourne) and Mosman (Sydney), a number of seemingly well to do households are at the real risk of mortgage default in the next 12 months, according to data from Digital Financial Analytics.

The issue in these affluent neighbourhoods is that many people have been flaunting wealth they don't actually possess.

Only if (and when) interest rates increase will it become apparent who's been on a debt fuelled buying binge, as opposed to those who could actually afford the big house and sports car.

Population Growth To Underpin Major Housing Markets

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October 3, 2017

As Australia's population continues to grow exponentially, property experts suggest demand for residential real estate in our major city centres won't be weakening anytime soon.

According to data from the Australian Bureau of Statistics, our population has rocketed by 389,100 new citizens in the year to March, representing the fastest increase in three years. Most of this growth has been driven by overseas migration.

How and where the expansion is happening

An additional 1.61 per cent of people now inhabit our wide brown land, with many of these new residents electing to settle in Victoria predominantly.

According to Commonwealth Bank senior economist Michael Workman, Victoria's population grew by 2.43 per cent or 149,000 people over the year to March 2017. Again, this was largely driven by net overseas and interstate migration, with 75 per cent of these extra residents settling in and around Melbourne.

Workman forecasts that with continued growth of an estimated 120,000 new residents annually, Melbourne will surpass its northern neighbour Sydney as Australia's largest city in coming decades.

Of course more people means more demand for dwellings, and in turn increased pressure on already over stimulated property markets in Melbourne's popular inner city suburbs.

"All these new households will need somewhere to live, so they [will] be competing with existing residents for property, both in the rental sector, and for purchase. This is likely to put a floor under property demand and so home prices," explains Martin North, principal of Digital Finance Analytics (DFA).
Not surprisingly, auction clearance rates, housing demand and price growth for Victorian real estate is currently outpacing all other states and territories, according to North.
Overseas migration makes up the majority
Most population growth over the year was the result of Net Overseas Migration (NOM), increasing by 231,900, or 2.4 per cent, which is reminiscent of the levels we were seeing pre-GFC. This has augmented a slower rise in natural increase due to births and deaths over the same period.

ABS demography director, Beidar Cho, says for the year ending 30 September 2016, NOM increased by nearly 9 per cent, which equates to 193,200 extra Australian citizens.

"This is in contrast to the declines of NOM of over 10 per cent experienced during 2014 and early 2015," she says. "But the current growth of NOM is well short of the record during 2009, when over 300,000 people were added to the population."

ABS data indicates that Queensland experienced the most significant rise in NOM, at 19 per cent, followed by Victoria and new South Wales at 13 per cent and 11 per cent respectively. Overall, our population grew by 348,700 people last year, to reach 24.2 million by the end of September 2016. Of this figure, 50 per cent or 193,200 people were overseas migrants.

Overseas migration makes property pricier

North says overseas migration is fuelling demand for residential property, with new families seeking out well-located homes near essential infrastructure and amenity, like schools and universities, along with employment opportunities.

Hence the more established suburbs, where supply is already incredibly tight relative to demand, are likely to become increasingly popular and pricey over time.

According to the latest figures from CoreLogic, house prices in key cities across Australia increased by 11.7 per cent in the 12 months to February 2017. And since the end of 2008, combined capital city home values have increased by 66.2 per cent.

Of course this exponential price growth hasn't been congruent across the board, with cities like Perth and Darwin seeing values decline in the wake of a cooler resources sector. Likewise, increases have been less extravagant in Brisbane, Adelaide, and Hobart.

Head of research at CoreLogic, Cameron Kusher says, "It's really important to note that the housing affordability challenges are largely a Sydney and Melbourne phenomena.

"The popularity of Sydney and Melbourne mean that prices in these cities are going to be substantially higher due to growing populations, strong demand for investment property, and a shortage of supply."

Retirement fund revolution – 9 ways to future proof your post-work income

This Issue:
October 3, 2017

Australia faces a somewhat unclear future when it comes to supporting our ageing population. With a growing imbalance in the amount of retirees to employees able to support them through ongoing taxpayer funded aged pensions and subsidized healthcare, many are suggesting this type of government assistance is simply not sustainable over the long term.

Some analysts believe aged pensions could become unaffordable for future governments, who will then be in the unenviable position of either committing political suicide by revoking pensions entirely, or looking at increased taxes to support a continued pension fund.

These issues around the future of our economic standing as 'the Lucky Country' came to the fore in recent weeks, when the Libs teamed up with the Palmer United Party to freeze the planned compulsory superannuation guarantee increase that was due to take effect in 2018 until 2025.

The rise from 9.5% to 12% in compulsory employer contributions was put on hold in anticipation of the impact the recent mining tax repeal might have on the budget over coming years.

Interestingly, it has since been revealed that a young Tony Abbott fought the notion of compulsory superannuation way back in 1995, when he told parliament it was one of the 'biggest con jobs' and a way for making Australian workers fund their own retirement so the aged pension could eventually be scrapped.

Indeed, Abbot tried to justify this recent decision around compulsory super guarantees as a win for Australian workers, suggesting we can all have our money sooner rather than waiting for retirement.

But when you look at government policy around superannuation, aged pensions and retirement holistically, it seems to all point to one imminent outcome…future retirees will be forced more and more to stand on our own two financial feet.

All of this points to one clear take home message for today's employees and tomorrow's retirees – the need to implement and act on a clear investment strategy to self fund your post-work lifestyle is no longer an option, but a must.

So here are 9 ways you can secure your own retirement fund and ensure you future proof your financial health…

1. Work out your financial goals in retirement.

How much will you need to retire on in order to fund your ideal post-work lifestyle? Remember to account for the rise in cost of living that will occur over time, so your end retirement income goal is realistic and workable.

2. Use these calculations to plan your strategy.

How will you attain these goals as you move through life? Your investment strategy should account for your risk profile as an investor among other things, and needs to align with the goals you have set for your wealth creation journey.

3. Be hands on with your financial planning.

Don't leave it all to someone you pay for advice, as they don't have the same stake in your future as you do. While seeking professional assistance to establish the right investment vehicles and structures for your purposes is essential, you should always be the one in the driver's seat.

4. Seek appropriate counsel.

As mentioned above, seek guidance around your ideal investment approach from appropriately qualified and experienced professionals. While you should aim to be as educated as possible when it comes to your preferred asset class and portfolio structure, you need to know when help is necessary.

5. Explore your options. Many of us fail to make a start on planning for our retirement

because we act according to what we know. In other words, a lot of us base our financial planning decisions on what we saw our parents do (or not do), or on popular opinion from within our circle of peers. If you want to do more than just keep a roof over your head and food on the table in retirement – if you want to get out and explore the world for instance – it's important to not just rely on your standard employer super fund contributions to pay for your post-work lifestyle.

6. Step out of your comfort zone.

This aligns with the last point, in that you will need to venture beyond what you know and potentially enter unchartered waters when you make the decision to take full responsibility for your retirement income. Often you will need to unlearn all the things taught to you about financial planning and start again with an entirely different set of rules. But challenging yourself in this way comes with the potential for great rewards.

7. Consider managing your own retirement fund.

Self Managed Superannuation Funds (SMSFs) are fast becoming a popular option among investors, particularly those wanting to secure their future income stream through residential real estate. While there are numerous related expenses in establishing these more hands on structures for your retirement savings, the benefits of driving your own portfolio can be well worth the associated costs. As always though, the structure and approach needs to complement your overall strategy and goals and this is definitely an area where expert guidance must be sought.

8. Think about diversification.

Consider the assets that would make most sense as an addition to your portfolio based on your personal circumstances, your end objectives and your preferred strategy as an investor. Then once you have a firm foundation established in this particular investment vehicle and are confident in the performance of your portfolio, consider other potential asset classes. Some investments will be more about long-term growth, while others will be about sustaining your portfolio with a healthy balance of cashflow and capital gains.

9. Take action!

It's easy to lose sight of the big picture when there is so much going on in and around our increasingly hectic lives. But the fact is, if you want financial stability and prosperity in retirement, you have to start thinking about tomorrow, today. Don't put it off and don't wait for circumstances to potentially take the reins and lead you in a less than desirable direction. Take affirmative action and take the future of your post-work life back into your own hands.