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NEWSLETTER | ISSUE 1

WHY THE AFFORDABILITY DEBATE WON'T GO AWAY ANY TIME SOON

It's the ongoing fly in the proverbial ointment when it comes to our housing market – the Great Australian Dream has largely become unattainable for younger generations, with some suggesting they will never have the opportunity of home ownership.

Various ideas for policy reform are continually floated from different levels of government and many suggest today's low interest rate environment could provide some relief.

However, incentives to make the purchase of housing a reality could actually be adding to the underlying problem, by increasing competition in select pockets of our markets and putting upward pressure on restricted supply.

A mixed bag of consumer sentiment

The Housing Affordability Sentiment Index (HASI) 2014 reported that while 60% of Australians believe they are better off financially in terms of household savings and Gen Y are increasingly optimistic about their fiscal future, many are still reliant on mum and dad to get a foot on the property ladder, with 16% receiving a parental cash injection to buy their first home.

Sixty three per cent of those surveyed believe housing affordability is continuing to deteriorate, and 59% anticipate that this will be an ongoing issue in years to come.

More than half of respondents believe Australian homebuyers are facing greater challenges when it comes to breaking into the property market than their overseas counterparts. Generally, we are feeling more skeptical about the market now than in 2013.

Not surprising really given the undeniable spike in activity witnessed over the last 12 months, as equity laden homeowners and property investors delight in the RBA's continuing conservative stance on interest rates and the banking industry's subsequent scramble to win new business.

Is real reform a pipedream?

Throughout the history of our housing markets, governments claiming to have Australian homebuyers' best interests at heart have introduced numerous legislative changes.

It all started with negative gearing, which many commentators suggest signalled the demise of affordability by opening the floodgates on investor activity and creating cutthroat competition in certain pockets of the property sector.

Then came the capital gains tax concession and first homeowner grant, with the latter being credited with saving Australian real estate at the height of the 2008 GFC, even as overseas property prices crashed and burned.

The fact is, all three policies have contributed to the current climate and indeed, created micro-bursts of competition among buyers at various times that have added to the inequity we see today between average household income and the average debt required to service a mortgage on most real estate.

Last month, Independent senator Nick Xenophon weighed in on the affordability debate and suggested yet another reform that experts say is only going to make the situation worse.

His idea? Allowing first homebuyers the opportunity to access part of their superannuation savings as a housing deposit. On the surface, his alleged intention to help prospective purchasers get a leg up might seem genuine.

However, Australia's economic boffins argue that the only people who would benefit from the inevitable competition injection such a move will create are existing hometown.

Are our pollies part of the problem?

Skeptical of the true agenda around suggested affordability reforms, such as that recently proposed by Xenophon, a few researchers have been doing some digging into the housing interests of Australian politicians.

Interestingly (and I guess not surprisingly), housing researchers Paul Egan and Phillip Soos and former strategy consultant Lindsay David found that between the 226 members of parliament in 2013, 563 properties were owned at a combined value of around $300 million. That equates to an average of 2.5 properties (give or take) per member. Hmm….

While average home ownership rates sit at around 70 per cent in Australia, 91 per cent of our Senators own real estate and 95 per cent of members in the House of Representatives have property holdings.

It seems one thing the Libs and Coalition agree on is the value of a property portfolio. Of course this has led many media commentators to question whether such an obvious conflict of interest will ever see reforms introduced by the government to genuinely give potential homebuyers a leg up the property ladder, or to merely increase the value of their own assets.

So, housing reform for public interest or self-interest? When it comes to protecting their own financial position, I think we all know where our well-paid politicians stand.

Is there an answer?

Housing affordability is definitely becoming a social issue for Australia's younger generations. Given that our property loving (baby boomer and Gen X) politicians have so much of their own retirement funding at stake though, it's difficult to imagine they will be scrambling to find a real solution to this issue any time soon.

Of course the youth of today, who are personally experiencing the affordability debate on the frontline, will one day become the drivers or property prices themselves. Perhaps then we will see real change in the sector. But then, with a helping hand from mum and dad to get their own slice of property nirvana, they might want to see Australian house prices continue to move onwards and upwards too.ers, real estate agents and property developers.

CHA-CHING! OTP DEVELOPERS CASH IN ON INVESTOR BOOM

It seems wherever you turn right now property investors are being singled out as the cause of pretty much everything to do with real estate. From escalating dwelling prices causing the latest affordability crises to above average clearance rates and everything in between, whether you're a local property punter or an international player, chances are you have been part of the catalyst for the latest 'record high'.

Okay, perhaps that's a slight exaggeration, but investor activity is certainly being scrutinized closely and with great interest in particular from property developers.

Favourable market conditions often bring construction companies out of the woodwork, as they crank up the wrecking balls and look to cash in on renewed buyer activity. And this upward swing in the cycle is no different.

Sydney and Melbourne are the usual suspects when it comes to high-rise apartment booms. So it's not surprising to learn that historically high numbers of apartments are currently being built in Victoria's capital city than at any other time.

According to recent development activity data from the City of Melbourne, almost 6000 new dwellings have been completed or are set to come on line by the end of this year, which is nearly three times the annual average over the past decade. A further 5,774 properties are due for completion in 2015, with much of these concentrated around the CBD, Docklands, Southbank and Carlton.

Too much, too soon

Experts suggest that off the plan developers are creating a worrying glut of 'investor grade' (read 'cheap') high rise stock to profit from recent spikes in investor demand, particularly from offshore interests.

According to some local real estate agents, overseas developers are responsible for around 40% of all new stock set to grace the Melbourne skyline over the next 12 months.

BIS Shrapnel's senior manager Angie Zigomanis has warned this is creating the very real potential for a dangerous oversupply that will catch out unsuspecting off the plan purchasers.

He told the Sydney Morning Herald recently, "If you've bought something new, off the plan today, I suspect you'll find…three years from now, it'll be less than what you paid for it if you tried to resell it."

Sydney to follow suit?

Not to be outdone by its 'little sister', the Harbour City looks set to take on an expanding number of high-rise projects of its own in the not too distant future, if proposals to rezone numerous areas in and around the CBD for higher density development are any indicator.

Although the New South Wales government can look forward to an avalanche of opposition to the multi-storey residential towers they're making way for, as local residents fight against the inevitable traffic congestion and extra burden on existing amenity such as schools and hospitals, they are pushing forward with the intention of boosting housing supply and improving affordability.

Much of the changes in the tightly constrained city are set to occur in three new areas along the future North West Rail Link in Sydney's Hills district, which are being touted as 'Urban Activation Precincts'.

Meanwhile in the Sunshine State, veteran developer David Devine is in the throes of negotiating a sale on the South Brisbane former TAFE college site he paid $22million for last December. It's expected the Chinese group he is in negotiations with will take the parcel off his hands to build a new apartment complex, for the tidy sum of $46million.

Devine's company Metro Property Development is itself responsible for 1465 new apartments currently under construction in the Brisbane CBD, with a further 1000 in the planning stages.

Buyer beware

While there is no denying that Australia needs further accommodation to house our growing population, particularly in and around our perennially popular major cities, investors should tread carefully when considering an off the plan purchase of this type.

Much of this generic stock can cause headaches when it comes to obtaining mortgages, with values often falling at completion due to the high volume of product coming on line all at once. In turn, the banks can leave you high and dry if they decide the risk is just too great or if your LVR ends up pushed beyond capacity.

Then there's the competition you face when finding a tenant, along with the other 500 landlords in your building, and the 'investor grade' construction that sees these monoliths quickly lose that 'new building lustre' and in turn, favour with anyone but the cash strapped overseas student population.

In reality, the only profit made from this type of stock is generally that of the quick turnaround developers who reel you in with glossy marketing and the promise of enticing minimum deposit deals.

Don't get me wrong; inner city apartments can be goldmines for investors. But as with everything, you need to know what you're buying into and make sure it ticks all of the necessary investment boxes. Otherwise, you run the very real risk of ending up with a lemon in your portfolio.

FIXED RATE PRODUCTS LOSING POPULARITY WITH BORROWERS

Last fortnight in our commentary regarding the Reserve Bank's decision to maintain the current cash rate at 2.50%, we discussed the unprecedented move from three of the four major banks, promoting fixed rate products under 5%.

Reflecting a rosy optimism that this current low interest rate environment will continue well into the future and a hyper-competitive lending market, the Commonwealth pipped the other players at the post, announcing a 4.99% fixed rate product. And it didn't take long for the others to follow suit with their own efforts to win over new borrowers.

Interestingly, recent housing finance data suggests that demand for fixed rate mortgages is on the decline. Information from the Australian Bureau of Statistics reveals an uptake of just 14.3% of fixed rate mortgages for new housing commitments in June this year, compared with 17.9% in June 2013.

Given that today's consumers are far savvier when it comes to the underlying economic fundamentals that drive our markets, thanks to the wonderful world of digital information, this is hardly surprising.

Property punters in Australia are confident that local and international events and economic tidings will see the RBA continue to act conservatively for some time to come.

As such, most mortgage seekers are content to stick with more flexible, variable rate offerings and borrow that little bit more to secure the home or investment of their dreams – with the average loan size climbing by 7.4% from $304,500 to $327,000 over the 12 months to June.

So could this dwindling lack of interest (pardon the pun) in their fixed rate offerings have been the catalyst that convinced the big boys to attempt one last product reduction push to lock borrowers in for a fixed rate term?

And if so, this then begs the question…where do they think interest rates will be heading in Australia over the next three to five years?

While these questions remain unanswered for the time being, one thing is certain; borrowers who are in a strong financial position right now should be feeling quietly confident about striking a pretty good property investment or home loan deal.

Given that new housing finance commitments increased from $26.8billion in January to $27.7billion in June – an increase of 3.4% - lenders will be doing all they can to secure and retain your business. Don't be afraid to play their game.

9 NEGOTIATION RULES FOR A COMPETITIVE MARKET

If you've been enticed back into the market by this current low interest rate environment, you would most likely have noticed by now that you're not alone. Opportunities to obtain 'cheaper' debt have made the notion of accessing existing equity to grow your investment portfolio very alluring.

Investors have been leading the current surge in market activity across many of our major inner urban markets, while first homebuyers are breathing new life into select suburban pockets.

RP Data-Rismark's July Home Value Index showed Sydney and Melbourne made remarkable gains in the two years since June 2012, with dwelling values recording a cumulative increase of almost 25 per cent and 18.5 per cent respectively.

Our two major cities are also leading the charge when it comes to auction clearance rates, with figures in the 70 percentile range over the last couple of weekends.

All of this renewed market vigour is obviously welcome news for property investors. However, it does mean that competition is fierce.

So how do you cash in on the opportunities that are currently in the offing, without getting caught up in a cutthroat bricks and mortar battle? This hotter market can be a tricky beast to tame, but if you keep the following 9 negotiation rules in mind you'll be one step ahead of the game.

1. Set your price and stick to it

One of the big mistakes investors make is being underprepared when it comes to establishing a fair price for the property they set their sights on. Do your homework and know what constitutes value for money before you even start parleying.

Once you have determined how much you can afford for the property and what the deal is actually worth, do not be tempted to increase your offer further.

2. Negotiate based on facts and figures

This goes hand in hand with number one. Research comparable sales in the neighbourhood and if need be, consult an independent valuer for confirmation of what the property should sell for.

A local buyer's agent who knows the area intimately can be of great assistance in this regard, as they will know whether you are at risk of over-capitalising or in the running to secure a worthwhile long term investment. Remember, buying well doesn't necessarily mean buying below value. It's all about what you stand to gain with the property in question as an addition to your portfolio.

3. Make sure the deal meets your needs

There is no point fighting to win a property that doesn't align with your overall property investment strategy or objectives. Having confidence in your investment approach – because you have done your due diligence and understand your needs and financial capacity - means you are less likely to make a buying mistake that you might regret later. Anything you buy should enhance your overall position and complement your investment goals.

4. Avoid bidding wars

The vast majority of residential stock in and around our major capital cities ends up going to auction. Real estate agents encourage vendors into this form of treaty as it allows the market to determine a reasonable price for the property in question.

When you are competing with buyers who have their heart caught up in the deal though, you can easily find yourself drawn into a frenzied bidding war. Again, be prepared with the facts and figures, know your limit and don't be tempted to outdo the competition just so you can claim a victory. There will always be another opportunity.

5. Know when to walk away

Whether it's an auction or private treaty, at some stage you might find that things stall and the negotiation process just isn't moving in your favour. If you find yourself in such a situation, sometimes the only option is to concede defeat and walk away. There is more regret in buying something that just doesn't make financial sense than in having your own "one that got away" story.

This is particularly relevant when you come up against an unrealistic vendor, who sees a hot market as an opportunity to milk buyers for more than their home is actually worth.

6. Listen closely for the other party's 'pain'

People sell property for a reason. Whether they are upgrading, downsizing, need to release equity or wrangle their way out of an undesirable financial or personal predicament, there will be an underlying agenda. While I'm not suggesting you take advantage of someone's potential misfortune, if you can determine how motivated they are as a vendor, you might be in a better position for negotiating a favourable deal for all involved.

7. Look for the win-win

As per the above rule; for instance, if the vendor is compelled to seek a timely transaction and wants out ASAP because of a messy divorce, then you can always negotiate a better deal by answering their needs at the same time. Perhaps they would be more open to lowering their asking price with shorter settlement terms? If you can determine what the other party's win might be, chances are negotiations will be a lot more successful and ensure an outcome that is agreeable to all.

8. Know when to hold 'em and know when to fold 'em

Okay, all Kenny Rogers references aside, this rule is really all about trusting your instincts and being a little bit flexible. You may not get everything you want from a deal and that's fine. Just have a good idea of what you are prepared to compromise on when it comes to the contract terms and what you must stand firm on. Remember, it's always good to give yourself some wiggle room when negotiating.

9. Don't give away the end game

One of the big rookie mistakes we see when investors enter into the negotiation game is over-confidence. Whether it's feigned to hide uncertainty or just plain arrogance, going in all guns blazing and announcing your 'bottom line' to the other party from the outset can be a big mistake.

Keep your cards close to your chest and try not to be lured into revealing too much about your situation or what you're prepared to settle for by clever real estate agents. One of the best ways to avoid this trap is to answer any questions as directly and succinctly as possible, without offering any unnecessary detail – because we all know that's where the Devil is!