Trilogy news
"the property investor's mortgage broker"

NEWSLETTER | ISSUE 13

16 WAYS TO SET YOUR KIDS UP FOR LIFE

As parents, we always hope that our children will grow up to be valuable members of society and make their own unique contribution to this world in a positive, meaningful way.

We don't necessarily expect them to be rocket scientists or solve the question of world hunger, but it's of course good to think they'll always act out of self-respect and become responsible, well adjusted adults.

With generational shifts, there usually comes criticism of 'kids nowadays' and as the baby boomers relinquish control of the world's collective destiny to their Gen X and Y children, this time 'round is no exception.

Accused of being 'entitled' and 'lazy', children of the seventies, eighties and nineties are arguably products of a world built on the basis of consumption and competition.

Worryingly, the 24/7 stream of marketing we're all subjected to just seems to be getting faster and more 'in your face' every day.

How often do you see parents struggling to maintain their composure in the shops, as their screaming child throws a wobbly at the checkout over the latest 'must have' toy they've seen on TV?

Let's face it, we live in a material world (did you break into Madonna?) and without being appropriately guided through the chaos of consumerism; our children are at risk of becoming credit junkies who 'have to have it now'.

So here are 16 ways to prevent your child from becoming a statistic and instead, set them up for a harmonious life of physical, mental, emotional, social and financial wellbeing...

1. Eliminate the entitlement mentality. Teach your children to be the best person they possibly can, without expecting anything in return, and you're doing them an immense favour. Expectation is the harbinger of disappointment and it's this disappointment, when things seemingly 'don't go our way', that sees many people spiral into despair.

2. Teach budgeting skills. There's an enormous black hole in our public school curriculum when it comes to important life skills, such as money management. So it's advisable that parents take the time to involve kids in balancing the household budget as soon as they can get their head around it.

3. Instill the idea of paying yourself first. As a teenager, the temptation is to race out and spend your first paycheck on the latest fad. But learning to pay one's self first in order to accumulate enough savings to then invest, will provide a level of financial stability most fail to achieve over their lifetime.

4. Give them lessons around financial literacy. I'm not suggesting you use the Wall Street Journal as bedtime reading for your three year old, but encouraging an understanding and interest in markets, commodities, compounding and money in general will at least give your children a good financial foundation.

5. Encourage goal setting. The reason some people are highly successful, while others only ever attain an enduring state of mediocrity, is that they establish their desired destination and then plan their journey accordingly, rather than just drifting along aimlessly hoping for the best. By establishing clear goals, successful people assume control of their own future.

6. Encourage strategic planning. This goes hand in hand with the above. You wouldn't jump in the car and start driving without first checking the fuel gauge and consulting your trusty 'Sat Nav'. Those who fail to plan get waylaid by distractions; think investors who always seem to fall for 'get rich quick' fads that end up failing dismally.

7. No problems, only solutions. Children seem to have a knack for finding a disaster in any situation. The most inconsequential issues become major molehills within seconds and suddenly they're screaming about a sibling looking at them the wrong way! Teaching your child to see problems as opportunities to identify solutions is perhaps the best lesson you can provide. It will give them an incomparable level of independence, confidence and emotional resilience that they'll thank you for in the future.

8. Do what you love and love what you do. The main thing we want as parents is for our children to be happy, not stuck in some dead end job that makes them resent the 'nine to five grind'. Encourage them to follow their passion first, rather than a pay check.

9. No blame games. We live in a world where it's easier to blame someone or something else for our misfortunes than take responsibility for our own actions; "I'm too fat because of that McDonald's opening down the end of my street. I should sue 'em!" But this means abdicating control. When we take full responsibility for all that we say and do, we are no longer victims, but masters of our own destiny.

10. Give back. This isn't just about donating a few dollars here and there to your favourite charity, but also committing that other valuable resource – time, to help those less fortunate. Appreciation comes in all forms and giving back when you're in a position to do so is a way to express your gratitude for life's blessings.

11. Feed their body, mind and spirit to promote holistic health. You can have all the money in the world, but if you're not healthy enough to enjoy it with loved ones, what's the point? Children are highly influential little beings and what we do in their formative years, sets them up for life. When we feed them the good stuff – wholesome meals, lots of love and the gift of our time and respect – we give them a subtle but defining message that in turn influences their self worth and encourages good habits.

12. The value of self-respect. It will make all the difference when it comes to them choosing those things that help to shape us over time, including a career and life partner.

13. Teach what true friendship looks like. My mother often tried to warn me away from 'friends' who had vested interests. Of course I didn't listen to her at the time, only to be burnt. Pointing out the self serving agendas others sometimes have when 'befriending' your child might seem a bit brutal, but it will give them an instinctual insight into who they can eventually trust in life – with their body, mind, soul and bank balance!

14. Encourage a love of books. Words are the foundation of learning. Instilling a love of books and expanding one's mind by exploring unchartered waters is a wonderful way to ensure your child continues to grow as a thoughtful human being throughout their entire life. All it takes is a good book at bedtime.

15. Smile more – it's good for the soul. Plus being nice gets you a lot further in life!

16. Be a good role model. At the end of the day, if you don't practice what you preach when it comes to instilling these values in your child, then all you're really giving them is a whole lot of lip service. I often look at politicians squabbling and name calling during parliamentary sessions, as adults condemn things like teenage bullying on social media. Lead by example and be the best person you can be. Sure, we all make mistakes along the way because we're human. But acknowledging them will go a long way in giving your child the foresight and resilience to navigate life successfully.

HOW ARE LENDERS RESPONDING TO THE RESERVE BANK'S LATEST INTEREST RATE CUT?

One could almost feel a little sorry for the banks lately, when you consider the thinly veiled and conflicting threats directed at them from government regulators like APRA and the federal treasury.

On the one hand, APRA and the Reserve Bank are leaning heavily on the Big Four, warning against increasing their investor related lending base, whilst on the other, Treasurer Joe Hockey has said he'll be 'very angry' if lenders fail to pass on the RBA's latest rate cut in full.

Surely by doing the latter, lenders will in turn encourage investment related activity. This is just logical, particularly given the only real action in some markets at the moment is coming from equity-laden investors.

So what's a bank to do? Pass on the cut in entirety as the federal treasury is essentially telling you to, in order to keep the property wheels in motion? Thereby risking a further onslaught of investor applicants that you might have to reject due to **government regulation?**

It's a predicament for certain. So let's take a quick look at how the big boys seem to be faring within this current political and policymaking minefield…

The decision

May's Reserve Bank determination to reduce rates to an all time low of 2 per cent wasn't much of a surprise, with most commentators predicting the move on the back of continued weak employment and business related data.

Moreover, the regulator is hinting at further cuts to come, as slowing Chinese growth and continued investment lethargy from big business adds to a rather dull (and uncertain) economic forecast into the foreseeable future.

In minutes from its May meeting, the Board said it will, "continue to assess the outlook and adjust policy as needed to foster sustainable growth in demand and inflation outcomes consistent with the inflation target over time."

The RBA also revealed a gloomier economic outlook than initially predicted earlier in the year, suggesting economic growth in the vicinity of 2.5 to 3.5 per cent in the year to June 2016 – a quarter of a percentage point weaker than previously expected.

"GDP growth is forecast to remain below trend for a bit longer than had been anticipated in the February statement," the RBA said.

One of the issues is with our now largest economic partner, China, whose breakneck expansion over the last decade is finally starting to slow to a more sustainable trajectory.

Domestically, things aren't looking much brighter, with private and public sector spending remaining relatively subdued and predictions that mining investment will "continue subtracting substantially from growth over the next couple of years," according to RBA Governor Glenn Stevens.

The prospect of clouds looming on Australia's economic horizon would normally send analysts into a spin over further rate cuts, but many are instead presaging a 'steady as she goes' approach from the central bank.

Sydney's 'overheated property market' is still the fly in the proverbial ointment. However, given that residential real estate is again the commodity dragging us out of the financial doldrums, it will be interesting to see which way the RBA plays its cards as we approach the end of this financial year.

On the brighter side, the regulator's latest policy statement noted a stronger jobs market and improving investment in Aussie real estate, driven by lower interest rates and population growth.

The treasurer weighs in

While the Reserve Bank tries to tiptoe its way around policymaking decisions in a bid to contain a **rambunctious Sydney housing market,** Federal Treasurer Joe Hockey is advising Aussies to continue spending up big.

He cautioned the banks to be generous in passing on the latest rate cut in full, recently telling reporters, "The banks are making very good profit and we need our banks to be profitable but when the Reserve Bank acts, we expect the banks to also act in full as well."

In isolation, this comment is more than reasonable and I'm sure most consumers would agree with the Treasurer's take on retail rate adjustments.

But when you consider the pressure exerted on lenders by APRA, passing on the full 25 basis point reduction could actually fuel investor loan applications, thereby triggering the imposition of macroprudential regulations that impose tighter restrictions over investor related borrowings.

Not to mention placing the entire financial services sector under greater regulatory scrutiny.

But the Treasurer is more concerned about stimulating a lackluster economy and as is the case with most sides of politics at present, recognises that residential real estate is currently the prodigal son of private sector spending.

"Now is the time to borrow and invest ... invest in the things that help to create jobs," Mr Hockey told reporters in Canberra.

He said there were many green shoots in the economy and this May cut from the RBA, "will help to facilitate those green shoots."

"It's as much about putting fertiliser on the green shoots as anything else."

How are the banks responding?

The Commonwealth Bank has decided to pass on 0.20 per cent of the RBA's 0.25 per cent cut, dropping the largest Aussie home lender's standard variable rate to a historically low 5.45 per cent.

In a somewhat surprising move however, the CBA also decided to increase rates on deposits, rewarding savers with a 0.55 basis point rise on its 8 month term deposits, to 3.05 per cent.

When announcing the changes, group executive for retail banking services Matt Comyn said, "While the circumstances of each RBA cash rate decision will always vary, we've carefully considered the impact of the current environment and moved to balance the needs of our customers."

Consumer watchdog Choice has spoilt the feel good moment for the CBA however, stating its decision signals "a return to business-as-usual from the 'big four' in the domestic mortgage market."

Choice director of campaigns and communications, Matt Levey said, "While we welcome the bank's decision to raise some deposit interest rates, CBA is hardly on struggle street, and its mortgage customers deserve better."

In a similar move to the Commonwealth, St George and the NAB have both reduced their standard variable rates by 0.20 per cent, while Westpac met them somewhere in the middle, with a 22 basis point drop.

ANZ was the first bank to move on a full 25 basis point markdown on their standard variable retail rate, which is now at 5.38 per cent.

ANZ Australia chief executive Mark Whelan said of the decision, "We hope by announcing this decision today we're able to provide certainty for our customers looking to manage their household budgets as well as playing our part in supporting the broader economy."

Anecdotally here at Trilogy, we're starting to see a reduction in the large discounts banks have traditionally offered on investment loans, with preferential treatment now being shown for owner-occupier borrowings.

We believe this has been instigated by APRA, in a bid to curb some of the hyped up activity in certain sub-sectors of Australian property markets and restore a **semblance of balance** in the wake of ever-cheaper credit access.

If you would like to know more about the competitive loan packages currently available and how you can potentially benefit from refinancing in this low interest rate environment, why not contact one of the Trilogy team members for an obligation free review of your financial portfolio? Just click here to register your contact details and one of our experienced property investment loan advisers will be in touch shortly.

WHAT WILL THE GREAT AUSTRALIAN DREAM LOOK LIKE IN 2025? A PEAK AT TOMORROW'S HOUSING MARKETS

The 'Australian property bubble' has been talked up a lot. But is the future fate of our real estate sector really as black and white as 'what goes up, must come crashing back down'?

And what would the ramifications be if our housing markets were to falter significantly over the coming decade? What social, political and economic consequences could we expect, that the government will do everything in their power to avoid?

The fine line

As a collective, our nation is at a tipping point of sorts. We're experiencing a moment in time in a way that many never predicted possible, within the same decade of the worst global financial crisis in modern history.

The rest of the developed world is still working its way out of the sludge, with some countries only just starting to make a bit of economic headway now and most still awaiting any form of meaningful resuscitation.

Meanwhile, Australia seemingly charged full steam ahead, propelled by government policy designed to stimulate our most relied on (and culturally loved) commodity, being residential property!

Any time the global economic footing starts to look a little dicey, real estate jumps to the top of political agendas. It's the asset considered most reliable to underpin other industries.

Consider how dependent major infrastructure and transport, as well as the retail, manufacturing and services sectors are on the stability of bricks and mortar.

Not to mention our four-pillar financial services system.

Throughout the GFC, between December 2007 and March 2009, while the value of equities dropped by 24.7 per cent, the Australian housing market sneezed and lost a mere 4.8 per cent in average dwelling prices.

The bottom line is this…we all need homes and traditionally, Australians worship the ideal of home ownership and the deity of the monthly mortgage.

According to a report from the OECD, Australia's rate of home ownership was second only to that of Spain and Luxembourg in the 1990s, at 71.4 per cent. This is a changing trend however, with the ABS reporting a home ownership rate of 69.4 per cent in 2007 and then 67 per cent in 2011.

More on that later…

Property's underlying stability as an asset class makes it a consistently reliable investment vehicle and therefore, perfect for investors looking to achieve balanced cashflow and long-term growth through sensible diversification.

The housing market is both highly influential on and highly influenced by **human behaviour.** It also runs independently of, and in response to other commodities, with the latter trend most recently evident in the wake of Australia's resources boom.

The resources boom is very revealing

Specks of dust in the outback became thriving towns almost overnight, built on the back of China's sudden insatiable thirst for our natural resources.

Infrastructure and housing construction went into overdrive and some industries caught the wave in a big way. As the mining monsoon moved relentlessly throughout northern Queensland, the NT and WA, entire communities sprang up overnight.

It all happened very quickly. Which is always one of the big problems with a boom. Once it starts to move too quickly, leaving other industries floundering in its wake, things get riskier as the wave becomes more of a speculative thrill ride.

One of the issues with the sudden expansion of any specific sector, such as occurred in the early stages of the resources boom, is that all the markets involved are rarely (if ever) moving to the beat of the same drummer.

Rather, they're each underpinned by very distinct economic, political, cultural and social fundamentals across different countries and different markets within those countries. As such, each has its own agenda that can be difficult to identify and will move of its own volition

Consider this with regard to the resources boom. Another good example is the property construction industry.

The catalyst for the resources boom was a rapid – and I mean breakneck type rapid – expansion of China's emerging economy, as a kind of mass modernization, industrialization and urbanization process occurred simultaneously throughout once under-developed parts of Asia.

Suddenly every country was scrambling to feed a hungry China endless supplies of steel, coke and iron ore, and given our geographic closeness to the continent and the richness of our mineral reserves, a resource based relationship just made sense.

One of the issues with the resources boom is that it was unprecedented in many ways, not the least of which was that it was entirely driven by a new economic juggernaut that seemingly had a long way to come from the 'dark ages'.

In the wake of this never before seen stimulus, a lot of commentators and analysts got excited, making sweeping predictions as to how long we could expect this golden age (or at least the shiny steel stage) of economic prosperity to endure.

At the time, our resources and real estate sectors were pretty much entirely responsible for Australia's relatively cool cruise through the GFC and beyond.

Bursting bubbles?

Interestingly, while many commentators and analysts were predicting continued double digit growth for our resources sector well into the 2020s off the back of China's economic boom, others were suggesting real estate would crash and burn.

Economists from abroad in particular, have been blustering about housing bubbles for years, claiming our buoyant property market was and still is growing at an unsustainable pace.

Recently we've also heard whispers that the resources sector is at risk of dying a natural death, as China's rate of growth trickles down to a more realistic long-term trajectory.

Is this happening? Or is this as plausible as an impending burst of our so-called housing bubble?

Industry experts insist the resources boom is not over until the fat lady sings. And she ain't sung just yet, according to chief economist of the federal Department of Industry and Science, Mark Cully.

He says while the resources boom peaked in 2011, related business spending peaked in the last quarter of 2012 at 19 per cent of gross domestic product.

We are now, according to Cully, in the early stages of the 'production boom'. He says China was only the beginning, with other developing countries hot on their heels.

"Economic growth in the highly populated emerging economies of Asia will continue to be a defining theme of this century," he says.

He claims that Asia's per person consumption rate of energy rich resources currently lags developed nations by a large margin, meaning as they play catch up, the continent's consumption will grow by volumes that will challenge the production capacity of richer nations, including Australia.

What's this got to do with housing?

One of the repercussions of the resources boom and the government's reliance on the mining sector to shelter Australia from more serious economic implications on the back of the GFC, is that many other sectors got left behind.

As money and energy was poured into mining, including a large chunk of construction and infrastructure dollars, others were left behind and really haven't fared very well since. Think retail for instance.

In neglecting business investment throughout other sectors, Australian regulators have once again found themselves in an interesting position, with a heavy reliance on residential real estate to keep local money moving.

The Reserve Bank introduced a further interest rate cut this month, dropping the cash rate to a record shattering low of 2 per cent.

This was a virtual admission that the only way to boost business and consumer confidence and bring any type of balance back to inflation and employment rates is to keep puffing away on Australia's alleged 'property bubble'.

It's common knowledge that this low rate environment is stimulating a large amount of investor spending across our major city housing markets; the only area of genuine stability in Australia's otherwise uncertain economy right now.

And what choice do they have? Imagine the political bloodshed if the value of everyone's homes suddenly dropped by thirty to fifty per cent, as suggested by US based economist Harry Dent?

The problem currently facing policymakers like the Reserve Bank and even different tiers of government, is that not only is all of this economic argie-bargie a little bit different and unusual, it's also come at a time when our nation is in the midst of a significant social transition.

Interest rates might be trending low, but our aged population is growing fast, as the generational baton is passed down to baby boomer offspring, who clearly have different values and life objectives than their parents did 'back in the day'.

What does the Great Australian Dream look like for X, Y & Z?

The way we live is changing. During the seventies and eighties, it was all about the baby boomers, as they drove an unprecedented level of urban sprawl in search of the ultimate suburban McMansion and weren't particularly bothered by a commute into the office.

They were busy raising families after all and the requirement for room to run around in the great outdoors took precedence, as sprawling family homes quickly became shiny social status symbols.

Now, it's less about size and more about location, as younger generations embrace the café culture and recognise that growing employment opportunities in and around our major city centres are more conveniently accessed from 'on trend' inner urban postcodes, than via congested major arterials.

Not to mention the fact that children aren't as physically inclined to run around outside these days, as they are to pick up an iPad and live vicariously through a virtual world of their choosing.

The point is we're marrying later in life, opting to follow upward career trajectories over commencing families and downsizing accommodation as our lives become progressively busier.

Less time for pottering around in the garden means low maintenance vertical landscaping and rooftop terraces built into medium to high density apartment designs are becoming more popular than suburban backyards.

The once upsizing baby boomers are also continuing to downsize, further increasing demand for accommodation that's less about square feet and more about accessibility to lifestyle amenity and essential infrastructure.

February data from the Australian Bureau of Statistics indicates that building approvals for higher density homes, including apartments and townhouses, has surged by 36 per cent since the start of 2014, with approvals for traditional detached housing falling by 1 per cent over the same period.

Major demographic shifts are driving this emergent trend, including average household sizes that have shrunk from 4.5 in 1911 to 2.7 today.

More of us are choosing to move back into our major cities, which makes sense when you consider this is where most of Australia's commerce diversity, job opportunities and well established transport, health and education infrastructure is located.

It's difficult to say whether our fascination with inner city living will continue in the same manner, particularly given the much maligned affordability issues around places like inner city Sydney and Melbourne.

But while higher density living might be a relatively new trend in Australia, it does seem to be catching on fast, particularly if the latest high-rise apartment construction booms across Melbourne and Brisbane are any indicator.

Housing as a social commodity

Housing started out as a social status in Australia – with the long regarded Great Australian Dream perpetuated after the Depression as something for baby boomers to aspire to. In turn, this would help to stimulate economic recovery.

Housing has recently undergone a cultural transition, as the baby boomers pass the baton to their X and Y offspring and generational attitudes toward how and where we live start to shift.

Before this however, many baby boomers had already started to change perceptions of property from the 'family' nest in the 'burbs, to a tradable commodity in their investment portfolio that could help fund impending retirement.

This is perhaps the biggest baby boomer legacy when it comes to our housing markets; by unlocking equity in the 'family home' to invest in further real estate assets, our relationship with bricks and mortar has indelibly altered.

Now property is well and truly about the money – the dollars and cents are prioritized over any sense of building the family 'castle'.

You just need to look at the fact that last year's borrowing data culminated with investor related property lending as a record 41 per cent portion of all loans in December.

Then there's the swelling SMSF sector, where housing is being ever pushed as a potential diversification tool.

But has this tradability trend started another market shift? Housing is discussed more and more in light of affordability barriers and first homebuyer accessibility issues.

We're hearing of inner ring suburbs where it's far more affordable to rent than buy, with many people who want to live in these areas forced into the rental market.

A recent report from realestate.com.au found that in the likes of Melbourne's Mount Waverley – a traditional family neighbourhood - the monthly mortgage repayment averages $4,717, whereas the average monthly rent is $1,571.

Buyer's agent and TV presenter for Your Property Empire on Sky News Business Chris Gray, says this rental trend reflects a changing 'Great Australian Dream', as well as ongoing instability around employment and consumer confidence.

"More and more families that can't afford to buy in the places they want are becoming more entrepreneurial and saying 'maybe owning land isn't the great Australian dream'," says Gray.

He adds that in time of economic distress, renting can be the safer alternative, "If you're getting bonuses and work is going well, you can rent somewhere luxurious, but if something happens, like your partner gets made redundant, you're not locked into a mortgage you can't pay."

So has the tradability trend of bricks and mortar assets created an entire rental generation that will never own property?

Have we got to such a tipping point that unless you're fortunate enough to currently hold equity in your own home or an investment, you may never realise the traditional 'Great Australian Dream'?

And if so, are we at a stage where housing will revert to more of a social commodity? Will we be forced to explore more socially aware and equitable alternative pathways to home ownership?

Is it time to seriously consider how we can put housing back into the hands of the people, rather than a financial services system perched on four pillars?

These are questions current and future governments will need to explore in their future policymaking efforts, given that all the RBA's rate cuts seem to be doing is further stimulating the trade of property as a commodity, rather than home ownership.

New trends emerging

The social implications of focusing on real estate for retirement wealth, as opposed to the basic need for human shelter, are already apparent when you consider that much of inner Sydney's property sector is a no-go zone for anyone earning less than a six digit salary.

This type of dwelling value hike is simply unsustainable, because what happens to your service based industries if service industry employees on the wages of say teachers, nurses and police officers, can no longer afford to buy a house in those areas?

Sure, you'll see a spike in the tenant pool – which is also great for property investors. But as investors know, there still needs to be balanced demand from both tenants and owner-occupiers to sustain long term market growth.

Local government authorities in NSW have responded to the inner urban affordability issue by relaxing regulations around things like granny flat construction in most municipalities.

But again, this begs the question – is it young first homebuyers who are benefiting, or equity laden baby boomers with existing property that they can leverage to achieve a nice hefty rent return from a backyard granny flat let?

A glimpse into the future…

While predicting the fate of our housing markets into the future is anything but easy, there are certainly key indicators to watch out for, which might give us greater insight into where our relationship with real estate is heading…

Firstly, there's the generational shift of economic and social power from the baby boomers to their offspring.

But the question here is, how much of the changes around how and where we choose to live – in smaller dwellings closer to major CBDs - are a conscious choice and how much has been (and will be) thrust upon X, Y and Z children due to issues like housing affordability and an apparently widening wealth gap?

Is the turnaround in young people opting to rent an apartment, rather than buy a family home in their desired inner suburbs really a comment on lifestyle choices and café culture? Or is it a social comment? About the haves and 'have nots'?

More young people favouring rental accommodation over home ownership means a growing tenant pool and increasing demand, particularly in 'expensive' inner city areas where acquiring bricks and mortar is increasingly challenging.

This growing wealth divide is effectively creating a social hierarchy, with less lower and middle income households seeing housing as a realistic 'dream' to aspire to and more high income earners using it as a tradable, tax effective commodity.

They can't let it end

Until more light is shed on the fiscal fortunes of our world, and we see who prevails in a time of shifting political and economic power right across the globe, the Australian government will continue to support the housing sector as a priority commodity.

And if any major threat to derail the resources sector is perceived, it's likely the government will dig their heels in to the property markets even more, as employment and investment relies increasingly on the latest residential construction boom and property related professional services.

Consider the rise in SMSF advisory services alone, with the ATO reporting that the number of self managed super funds has increased by 24 per cent over the last five years, to 534,000 and total assets of $557 billion.

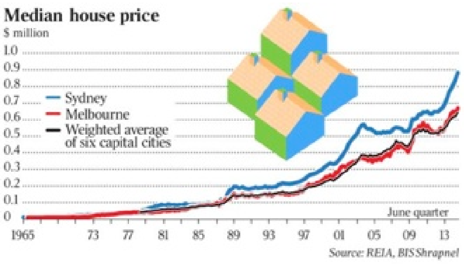
That's a lot of 'bickies', particularly when you consider that many funds are encouraging SMSFs to gear into residential real estate.

This SMSF phenomena signals substantial economic stimulus and investment in its own right and is another reason regulators can't afford to let our interest in bricks and mortar decline.

Some have suggested the slowdown of China's economic transition will trigger the bursting of Australia's so called property bubble. Others still believe the current off the plan construction boom will be the nail in our proverbial coffin.

But when value declines in the vicinity of 30 to 40 per cent are said to be on the horizon for our housing markets, can you really take all this talk seriously?

When you consider that Australian real estate markets have never experienced any type of earth shattering nosedive since the inception of record keeping, it's difficult to conceive of this type of crash actually eventuating.



And if the so-called 'bubble' were to burst, we'd have much bigger issues to worry about than our housing markets.

In Australia, a property market collapse of such magnitude would trigger political bloodshed and a general decay of our entire social order, because it would mean the ultimate collapse of the foundation our present day economy is built on – being residential property.

If the housing sector became too unstable, reflecting an unstable political and social landscape, and unattainable for anyone who doesn't currently hold equity in property assets, then where does that leave us?

What happens to us as a society? What happens to us economically, with the certain collapse such a dramatic price correction would trigger in a banking sector so very reliant on its mortgage books?

Socially aware property markets

The government will do anything to prevent this type of disaster, including the potential for dramatic policy shifts that could reflect a new social equity based housing system, less reliant on public funding and more focused on private innovation and investment.

Perhaps we'll see a growth in consortium type ownership structures, where people choose to bypass the banks in favour of pooling their own resources and eliminate the funding burden of a third party, constructing their own form of 'community' type housing.

Or perhaps the shifts will be of a more basic nature, as children and their parents are forced into inter-generational living arrangements of a more permanent nature.

One thing that's certain is this unprecedented period in time for our property markets is permanently altering our perception of housing. And the 'Great Australian Dream' will never be the same again.

5 QUESTIONS TO ASK BEFORE YOU BORROW WHAT THE BANK SAID YOU CAN AFFORD

How often have you typed some numbers into those online loan serviceability calculators, only to be pleasantly surprised when the bank's estimate of how much you could afford to borrow exceeded your expectations?

Perhaps you'd already run through some figures on your own in order to determine your monthly repayment capacity, and felt deflated at the prospect of not being able to obtain a big enough loan for that dream home or investment opportunity you'd been eying.

The fact is, what lenders suggest you can borrow; their idea of serviceability - is based on general algorithms applied to every single applicant in exactly the same context.

Sure they work on your specific incomings and outgoings, but when it comes to how much might be shaved off your 'capacity to repay' ranking because of things like 'number of dependents' for instance, it's all fairly standard.

There's no real accounting for your personal circumstances, long-term property ownership goals and the general direction you plan to take your life in, when they accept you as a 'valued client'.

Here at Trilogy, we've had clients receive approval for loans that are up to 50 per cent more than they should ideally borrow, in order to maintain an optimal debt exposure level and prevent their growing portfolio from spiraling into a financial black hole.

As such, when it comes to structuring a loan that's not only manageable, but also flexible enough to suit your long term serviceability needs and circumstances, the onus falls squarely on the borrower's shoulders.

Here are five questions you should answer to mitigate the risk of over-committing to an unsustainable mortgage, either as a homeowner or property investor.

1. How much surplus cashflow do you have?

The first step in determining your serviceability level is to create a basic balance sheet; listing all of your everyday expenses and total income to determine how much surplus cashflow you have available to fund a property loan.

From there, it's about future financial modelling to consider what might happen to your repayments when interest rates aren't perhaps as favourable as they are right now.

Remember to base assumptions on any potential lifestyle changes that could impact your earning capacity or significantly add to your outgoings, such as one partner ceasing paid employment for a period of time to start a family.

2. How much risk are you prepared to take on?

If obtaining a higher loan amount means a whole lot of stress and sleepless nights, why would you bother?

Assess the level of risk you're comfortable with, because any type of gearing will not only augment the rewards you can realise through residential real estate, but the associated risks too.

3. Will you have enough flexibility?

This is a critical question for property investors because although it's not a widely publicized fact, lenders have their own, in-house thresholds or credit caps that they apply to individual borrowers.

If you creep too close to this magical figure (usually around $1 million), you might find that the next loan you apply for is rejected outright with seemingly little explanation.

This means you could be left high and dry when attempting to leverage into further high growth property investments and build on your portfolio, even if you have a solid asset base that supports further funding on paper.

In this instance, maintaining an optimal serviceability level will depend on how your loans are structured across various lenders and loan products.

4. What are your long-term objectives?

If you plan on leveraging into further housing investments to build a substantial portfolio as the foundation of your retirement income, loan structuring is crucial to ensure you receive an optimal rate of return and have the ability to add to your asset base as required.

Should you find yourself caught up in a messy, cross-collateralised loan with one bank claiming all or the majority of your assets as security, your serviceability will slowly deteriorate, before finally dying a natural death.

Work out what you hope to achieve and from there, consider how to best structure your debt portfolio in order to retain better control of your serviceability levels into the future.

5. What if I over-reach?

As mentioned above, one of the biggest concerns for investors is the potential to effectively be 'cut off' from any further credit by your lender. This is obviously a scenario you should work to avoid at all costs.

For borrowers in general, the bottom line always has to be whether you can actually afford the debt you intend taking on.

Remember, you know far more about your financial and living situation…and care about it a lot more too...than all the faceless lenders out there.

A great way to account for your specific circumstances when it comes to assessing borrowing capacity and serviceability is to befriend an appropriately qualified and experienced mortgage broker.

Property investors in particular will benefit from a relationship with an independent broker who understands the financial intricacies of building a wealth-producing portfolio, and can help with the correct loan structuring from the very beginning.