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NEWSLETTER | ISSUE 15

MADE IN AUSTRALIA – WHY THE CHINESE LOVE OUR HOME GROWN HOUSING

Don't you just love how Australia's property markets keep delivering up one interesting newly set precedent after another of late?

Unprecedented interest rates, unprecedented median house prices in pockets of inner city Sydney and Melbourne, unprecedented conjecture about unprecedented **housing bubbles**…the list is endless.

And of course, let's not forget one of mainstream media's favourite whipping boys – unprecedented housing affordability issues and the alleged catalysts for 'inflated values', including **foreign investment activity.**

Foreign (property) investment - a brief history

In 2014, the RBA made a written submission to the House of Representatives Economics Committee Inquiry into Foreign Investment in Residential Real Estate.

The report essentially claims that despite much of the alarmist commentary around foreign investment, property acquisitions by overseas investors remain relatively low as a share of housing turnover (both value and volume).

Acknowledging issues around incomplete transaction data, the RBA submission states, "For much of the past decade or so approvals for foreign investment in the residential sector have remained around 5 to 10 per cent of the value of dwelling turnover in Australia, and perhaps half that share of the total number of dwellings turned over."

The submission suggests this is in keeping with past trends around foreign investment levels and adds that foreign purchases appear to be most concentrated in niche market sectors, including:

- New rather than established dwellings,
- Higher rather than lower priced dwellings,
- Medium and high density dwellings rather than detached dwellings,
- Inner city areas of Sydney and Melbourne.

No prizes for guessing where **off the plan** developers are largely pedalling their wares right now.

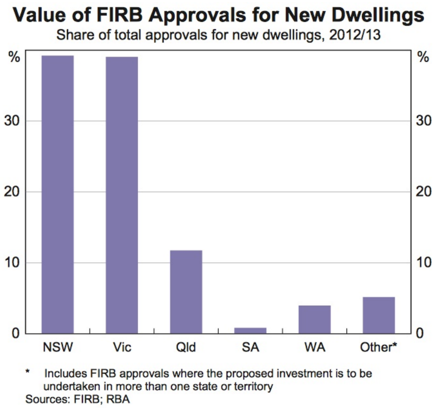
According to the RBA, "On balance, foreign residential demand has probably resulted in an increase in the **supply of dwellings** in Australia by more than would otherwise have been the case, and hence stimulated construction activity."

Made in Australia

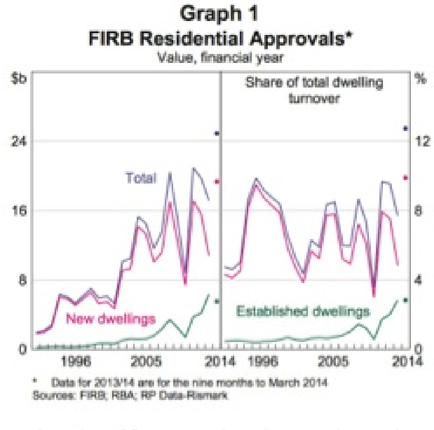
An initial glance at the below graphs presented by the RBA in their parliamentary submission, shows a clear spike in approvals for new dwelling purchases made through the Foreign Investment Review Board (FIRB) during the first three quarters of 2013/14, when the value of total foreign approvals as a share of dwelling turnover increased to 12 per cent.

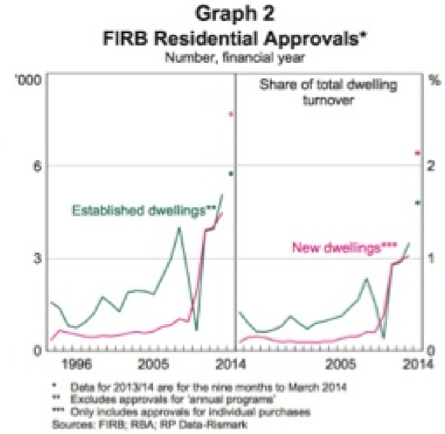
"However, with national dwelling prices and turnover having increased significantly over the past 20 years the value of foreign residential approvals as a share of total dwelling turnover in Australia has not increased over time," the RBA states.

The next graph clearly demonstrates that the majority of foreign investors favour Sydney and Melbourne property, with investment in dwellings across Victoria and NSW accounting for almost 40 per cent of the total value of foreign residential investment approvals in 2012/13.



"Bank liaison with industry participants suggests that much of this investment has been for the purchase of higher-density dwellings located in inner-city areas of Sydney and Melbourne, as foreign buyers and temporary residents typically prefer dwellings close to the CBDs, major universities and public transport infrastructure," the RBA observes.





China's bid to buy Australia

First came the insatiable Asian appetite for all things beneath our dirt (that's girt by sea) with the resources boom. Now as real estate does all the heavy economic lifting, it seems our Asian neighbours also like what they see on top of Aussie soil.

Updated figures around foreign purchases released by Credit Suisse in May this year, revealed the total value of Chinese residential property purchases was $8.7 billion in the 2013/14 financial year, representing an estimated 15 per cent of all new home sales for the period.

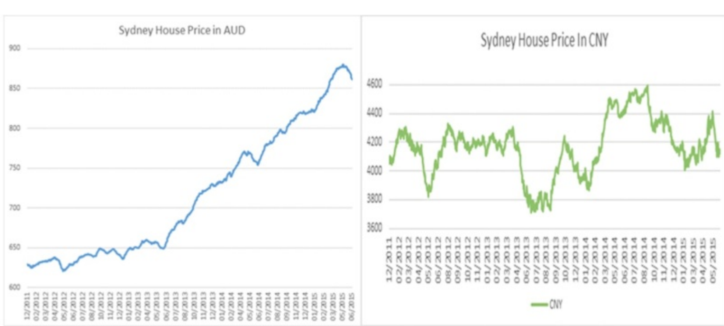
Not surprisingly, Credit Suisse data suggests that 23 per cent of new homes sold to foreign investors were located in Sydney and 20 per cent in Melbourne.

The international banking giant predicts that these numbers will grow significantly, with Chinese buyers expected to snap up a staggering $60 billion worth of property here in the Lucky Country over the next six years; more than double the $28 billion spent in the six years to 2013/14.

Why the obsession with Aussie property investments?

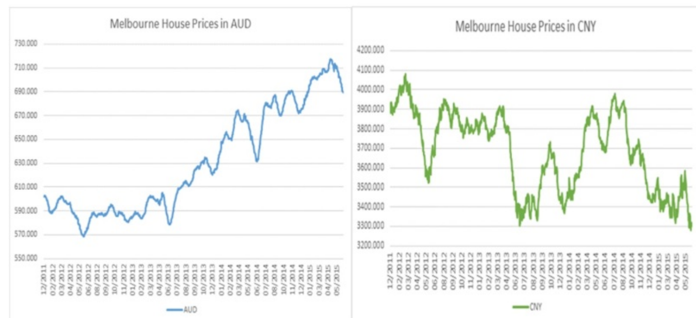
So what's fuelling China's apparent obsession with Australian bricks and mortar? Quite simply, it's economics.

Using data supplied by CoreLogic and Bloomberg, IG Market's chief market strategist Chris Weston demonstrates in the below graphs how Sydney's house prices have been trending from a local buyer perspective, as opposed to that of a Chinese investor over the past three years.



As you can see, while prices have surged in Australian dollars, thanks to our currency's depreciation against the Chinese Yuan prices have gone nowhere fast for Chinese buyers.

The same chart for Melbourne demonstrates how prices have actually fallen for offshore Chinese investors.



In other words, what might look expensive to local buyers (particularly first timers trying to get their foot in the proverbial housing market door) actually appears very affordable to a large throng of cashed up Asian investors.

"If we look at property prices then in AUD terms one can clearly see the rampant trend higher since late 2012, which supports the arguments of those who believe markets like Sydney have 'bubble' like qualities," says Weston.

"However, when adjusting price into Chinese Yuan and looking at the adjusted prices through the eyes of an unhedged investor you can see that things don't look so frothy".

Yet again, it seems Australia's unprecedented 'housing affordability' debate comes down to one crucial factor – perspective. What might be one homebuyer's unattainable 'Great Australian Dream' is another's very affordable (and irresistible) investment opportunity.

'CONFUCIUS SAY'... 10 PROVERBS THAT CAN IMPROVE YOUR PROPERTY INVESTMENT GAME

The Chinese have historically been a very wise (and patient) people, building their civilization to its current arguable status as a formidable, global economic powerhouse over centuries.

And let's not forget the swathes of Chinese investors increasingly recognising the incredible opportunity currently presented by Australian residential property.

I feel we could learn much from our Asian neighbours about economic evolution, starting with these 10 ancient proverbs that can be successfully applied to your own property investment journey…

(Before the emails start…I hereby acknowledge that what follows are some rather loose translations of proverbs, which may or may not have their original foundations in the Chinese culture, and were probably never actually spoken in the literal sense by Confucius. But words to live by nonetheless!)

1. There is nothing like trying.

A nice simple one to kick us off, but so very true when it comes to property investment. This could also translate to “He who procrastinates the longest finishes the retirement race last.”

Time is of the essence to any investment success, as it’s time – one crucial element in the dichotomy of compounding (with the other being capital) – that determines whether you can retire with sufficient wealth at a point of your choosing (ie. complete financial independence), as opposed to working your life away.

2. When one door closes, another opens.

A considerable amount of property market commentary has focused on an apparent rapid acceleration in house prices of late, particularly across investment grade, inner urban Sydney and Melbourne postcodes.

I wonder, as investors are increasingly bombarded with fear inciting headlines, how much of the activity we’re currently seeing is borne from a well-conceived investment plan, as opposed to a knee jerk reaction to what’s clearly being painted as a very bullish housing market?

The very human fear of ‘missing out’ always seems to accompany the perception of a rapidly rising market. But the fact is, there’ll always be another opportunity. Don’t waste time struggling to push against doors never meant for you. Focus on the open ones you’re walking towards today.

3. Opportunity knocks only once.

Okay, at first glance this seems a complete contradiction to the above point. But in fact, it just cements the notion that if you’re too busy ‘barking up the wrong tree’, you could miss out on the opportunity presenting itself in some other guise.

Listen for the sound of those knuckles rapping and when you hear it, consider whether this is a door you’d benefit from opening, then act accordingly. Linger too long though and opportunity will find another door to knock at.

4. Don’t postpone ‘til tomorrow what you can do today.

‘Procrastination’ is to ‘opportunity’ what ‘The Joker’ is to ‘Batman’ – a complete thorn in the lycra suited side. Not sure why the superhero metaphor has come into play, but the fact is if you fail to plan, you plan to fail. Moreover, if you fail to act on your plans, you’ll never even know if success was an option.

5. Every why has its wherefore.

Although you might not like the prospect of evaluating your investment journey and uncovering mistakes made along the way, only when you acknowledge and understand where you may have taken a wrong turn will you be able to rectify it.

For investors, the capacity to objectively assess the performance of your assets can mean all the difference in realising future financial success, as opposed to failing with your first acquisition.

6. Better hold with the hound than run with the hare.

Of course the fate of the hare isn’t that appealing, so you can understand the thinking behind this little gem.

For property investors though, the message is that your strategy must account for the fact that real estate is not really a speculative type of asset, given its relative illiquidity. Hence, a long-term approach will yield optimal results, whereas chasing quick profits on the back of the latest fad could land you in Failtown…population – You!

7. Everything in its season.

While the current real estate climate might have you chomping at the bit to get out there and acquire further wealth creating property assets, the question remains – is it the right time for you to be actively building your portfolio?

Again, this point resonates with the need for investors to identify their goals and then the subsequent roadmap as to how you intend to reach them, hopefully unscathed.

If the timing isn’t right for you, then now is not the right time.

8. One bitten by a snake for a snap dreads a rope for a decade.

This rather cryptic proverb essentially translates to ‘once bitten twice shy’. It’s common for beginning investors to make a costly error in judgment that scares them away from property forever. But if you make a mistake and run from it, what hope do you have of learning a valuable lesson that may serve you well in the future?

9. Measure thrice, cut once.

This is a great one for all those who like to create equity through property refurbishments! Just kidding…although you should always follow this advice when undertaking a bit of weekend DIY.

This comes down to planning for property investors. Rather than race into your next acquisition with all guns blazing – especially in the hotly contested Sydney city auction market – make sure you’ve joined all the financial dots and can come up with a picture that makes perfect dollars and sense!

10. A single slip may cause lasting sorrow.

Just ask the many investors who’ve ended up losing their entire asset base due to poorly structured, cross-securitised finance portfolios.

Don't be sad about the state of your financial affairs. And don’t put off a portfolio review if you feel it’s time to appraise your investment progress.

The Trilogy team can help to objectively evaluate your asset base and work out ways to optimise your cashflow position. Click here to connect with investment experts who will ‘teach you how to fish so you can feed yourself for a lifetime’. Metaphorically speaking!

HOW CAN FIRST TIME BUYERS OVERCOME THE AFFORDABILITY BARRIER?

As the old saying goes, "If you can't beat 'em, join 'em." And that's exactly what's happening right now, with an emerging trend in first time property buyers opting to become landlords rather than traditional 'homeowners'.

If it's good enough for their equity laden, young boomer and older Gen X parents trying for a last ditch effort to financially prepare as retirement looms, then why not their children who are faced with a future of consistently rising house prices?

I can understand wanting to get in on that action!

As talk around housing affordability reaches new crescendos, we're witnessing an increasing prevalence of first homebuyers taking the plunge into direct property investment.

Leaping their parent's Launchpad of the (now seemingly defunct) Great Australian Dream, today's Gen X-ers are buying straight into real estate as investors.

This is understandable; given that many watched their folks endure a none-too-pleasant financial fallout from the GFC led downturn, in conventional super funds and shares.

I fear a lot of people have forgotten how scarring the effects of the GFC were on many mum and dad investors of the day, and just how much that financial trauma changed our perceptions of investing and saving money (and in turn, our children's).

Suddenly it was more about the security than the immediate gain. Bricks and mortar had never looked so darn good when compared to the very volatile and frightening stock market.

Fast forward seven years and now more than ever, housing is considered a bankable and relatively risk free commodity.

And it's this perception that could make all the difference when it comes to young people overcoming the so-called 'housing affordability barrier'.

The perfect property investment storm…

Started building off the back of the GFC, but didn't really reach its current market maelstrom until the beginning of 2012; the same time, coincidentally, as the Reserve Bank started talking interest rate cuts.

As rates began dropping and stabilizing at lower levels, investment activity gained momentum and soon 'property investors' were painted as some type of collective evil force to be reckoned with in residential real estate.

The vilifying of investors was incessant, virtually suggesting that ageing mums and dads were swooping on lucrative inner city markets and snapping up all available stock, leaving soaring prices in their wake and a whole generation behind who could never afford the Great Australian Dream.

But according to survey data from Digital Finance Analytics, this isn't actually the case, with a notably rapid rise in the percentage of first homebuyer investors since 2012:

It seems a large collective of young people have recognised that buying as an investor is a great way to make property ownership more attainable, particularly when interest rates are so incredibly low and credit so cheap.

The opportunity to have a tenant cover the bulk of your mortgage repayments and holding costs, while being able to claim any out of pocket expenses related to your investment, is certainly appealing.

Particularly given, as a young corporate type looking to advance your career, you're more likely to want to live close to the city, where prices can be somewhat heady these days.

So then there's this option…

Have your cake and eat it too!

Or…live where you want and buy where you can. If you're fresh out of Uni, chances are you'll be earning a relatively modest income as you work your way up the boardroom ranks.

In order to follow an upward career trajectory however, you need to live where the action is. And I'm not just talking about trendy cafes, bars, shops and nightclubs. I'm talking about employment and industry growth.

So what do you do? Well, you pay a cheaper rent to your inner urban landlord to live in your ideal, commutable location and become a landlord in your own right, investing in an area and asset you can afford.

Whatever you do, don't let all the talk of housing affordability hold you back!

I personally think this new breed of young investor is very clever indeed. They're taking advantage of some of the cheapest credit we've seen in banking history to secure their financial future, all while living a younger, urban version of the Great Australian Dream.

Here are five ways you can join them…

1. Don't believe the hype!

There's a lot of hype and fear confronting would-be property buyers right now, so it's critical to not lose sight of the wood for the trees. Do your own research and importantly, become educated and empowered as a true player of the property investment game.

2. Consider your expectations and keep them in check

Be realistic with what you can afford and select your asset accordingly. The key as an investor is to detach from the emotion of purchasing a property and see it purely for its potential to generate capital growth and long term cashflow.

As a young person minus the commitments of family, you should have the time, energy and disposable income to tackle a renovator's delight. This is a great strategy to manufacture additional equity, improve your rental yield and grow your portfolio quicker.

You just need to be able to identify properties with potential, and see the 'diamond in the rough' where others see only a disaster.

3. Save your booty off!

If you're fortunate enough to have grown up in the inner 'burbs, consider staying at home for a little longer as you establish your adult life (sorry mums and dads!).

It might seem like a drag (sorry again!), but the amount of money you can save on rent in say, one to two years, could equal the deposit on your first property purchase.

If remaining under mum and dad's roof is just not an option, then make sure you establish clear financial boundaries for yourself and then take responsibility. It's called budgeting and whether you like it or not, is an absolute necessity in today's digital and fast paced economic world.

4. Join team mum and dad!

You could always use the err…promise of your prolonged presence in the family nest, lounging around whilst getting mum to do your laundry and cook your meals, as incentive for your parents to consider helping you start out on your property ownership journey.

If your mum and dad have existing equity just lying around gathering dust, it might be a good time to suggest that they too could benefit from owning a few property assets…right partner?

Many parents are partnering with their children in joint venture arrangements, with both generations benefiting from well-bought bricks and mortar.

5. Seek expert advice.

When markets are highly active, as we're seeing today, it's easy for first time property buyers to succumb to offers that seem 'too good to be true' (and turn out to be exactly that!) and become distracted by all the noise.

Even though you're looking for affordable housing, you still want property that cuts the investment mustard for at least the next twenty to thirty years.

Although it's difficult to do when you're young and untouchable, try to approach your property acquisition(s) with a clear, long-term strategy in place and identified future objectives.

The best advice I can give you ultimately is to seek out a lot of advice. You have the most valuable resource at your disposal as a first time buyer and that's time, so use it wisely and spend some picking the brains of an experienced property network.

If you're considering starting out on your own investment journey, why not connect with the team here at Trilogy?

We can't wash your dirty socks as well as mum (and we don't want to), but we can put you ahead of the game with years of collective knowledge and insights into Australia's property markets as seasoned investors and industry experts.

Click here to contact us and take your first step toward the new Great Australian Dream.

MAKE HAY WHILE THE SUN SHINES… DROPPING INTEREST RATES CAUSE A SPIKE IN MORTGAGE SETTLEMENTS

Thinking about refinancing to upgrade your property, or perhaps build your investment portfolio? Apparently you're not alone!

According to the Deloitte Australian Mortgage Report for 2015, mortgage settlement activity increased by 20 per cent last year, as property owners took advantage of enticingly low interest rates to refinance their loans for the purpose of upgrading.

And it's anticipated that this activity will continue to drive the lending market over the next three years.

Key players from Australia's lending arena who took part in the Deloitte panel, from which the report was produced, forecast loan settlements to increase by a further 6 to 10 per cent this year.

A prediction seemingly supported by the record $33.2 billion of property finance commitments posted at the end of 2014.

Credit growth surprisingly slow

Despite the fact that loan settlements are going gangbusters at the moment, overall credit growth has been trending historically low, at around 7 per cent.

This is because, as Macquarie Bank head of intermediary banking Frank Ganis explains, "Lending growth has been in refinances, with new lending at lower levels of around 3 to 4 per cent. The market has also seen an increase in demand by investors."

New investment trends muddy the statistical waters

The Deloitte appointed panel of lending industry heavyweights agree that local investors will account for the second largest piece of the property credit pie in 2015.

However, there's some conjecture as to how many of those borrowing to invest in bricks and mortar are doing so as current homeowners looking to secure their financial future with property assets, or first timers popping their proverbial housing cherry as investors.

Panellist Bill Armour from ANZ noted that a lack of official data around first home investors was cause for concern.

"The risk is that they classify anyone who has said they're an investor as a non-first home buyer and as such are somewhat demonized as driving house prices up, but actually they are just savvy young people who have figured out a way to enter the market."

While this might sound like a bunch of banking rhetoric, statistics are beginning to emerge in support of anecdotal reports from within the industry, that suggest a lot more young people are remaining as tenants while purchasing something they can afford as an investment.

After that little digression down housing affordability lane let's move right along and consider how you might, as a property investor and/or homeowner, use this current low interest rate environment to your own economic advantage (yes, that was the initial point of this article!).

As an active, established or start up property investor…

Now is the time to think about your strategy in terms of utilising existing or growing equity to build your asset base.

Consider the necessary acquisition rate and asset type that's required to achieve your identified investment objectives and timeframe. How does all of that fit with your current financial capacity?

Planning your borrowing approach is just as critical to your long-term success as optimal asset selection.

As a seasoned property investor looking to wind down…

How can you use the current low rate environment to reduce your non-tax deductible debt (as the first priority) and then your investment related debt, in order to eventually draw an income from your investment portfolio?

Even though interest rates might be shrinking, you should continue to make the same monthly mortgage repayments at previous, higher levels. These were obviously affordable for you at the time, so why not maintain them?

By doing so, you can end up shaving years (and thousands of dollars) off your property loans, putting you in a better gearing position as you near the end of your working life.

Start this process with any non-tax deductible debt in the first instance, so you retain negative gearing benefits whilst still full time employed. Then consider your exit plan from work and how long you have to extinguish sufficient debt to make your portfolio self-sustaining and income producing.

As a first time buyer looking to get into the game

Whatever you do, don't let all the talk of housing affordability hold you back! There's a lot of hype and fear confronting would-be property buyers right now, so it's critical to not lose sight of the wood for the trees.

Consider all of your options and importantly, think carefully about your expectations – now and in the future.

I personally think today's young investors, who choose to rent in their desired inner city, hip and happening postcodes, while purchasing in more affordable areas as landlords in their own right, are very clever indeed.

They're taking advantage of some of the cheapest credit we've ever seen in Australian banking history to secure their financial future, all while living the young, urban ideal.

Because you know I'm all about the rates, 'bout the rates…

Actually, that's not entirely true! Far from it really. But it's a catchy little tune that you're probably humming right about now.

The reality is, no finance strategy should ever be approached from one angle, including interest rates.

"Lenders don't have to be the cheapest but they do have to be competitive and be seen to go the extra mile for the consumer," says Deloitte financial services partner James Hickey.

Product features and flexibility are coming into play now more than ever, as banks find it increasingly difficult to wage wars based on retail rates alone.

The Deloitte report claims that with so many choices available to consumers these days, mortgage brokers are increasingly fundamental to the process of identifying and applying for a suitable home loan, even though new online application options are emerging in the market.

"As direct online applications start to emerge you will see some customers use that channel, which is good for choice," said panellist Angela Middleton from ME Bank.

"But there will always be an important role for brokers to have a face to face with customers, particularly customers who wish to better understand the product and get more information about what is available and what's best for them."

If you would like more helpful advice around how to manage existing portfolio debt and take advantage of the current low interest rate environment to optimise your cashflow position, why not contact the team here at Trilogy?

Unlike your computer, we'll talk you through the best possible mortgage options for your circumstances and strategy, without freezing up for no apparent reason. Click here to connect with us today.but the amount of money you can save on rent in ou're looking for affordable housing, you still want property that cuts the