



Do You Need a Buyer's Agent?

This Issue:
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TRIOLOGY  news
"the property investor's mortgage broker"

Offering consistent returns and tangible bricks and mortar security, it's not surprising that more Australian investors are choosing to add property to their retirement portfolio.

As an investor, you must ensure that any asset purchased meets your long-term financial objectives and more importantly, is feasible with regard to your capacity to derive the desired economic benefit.

But do beginning investors have as much ability to make savvy, wealth producing property acquisitions as the Donald Trumps of this world? Or should you seek expert guidance before jumping headlong into a property deal?

Qualifying property

Australia's housing markets are in constant flux. Right now, while property values are increasing across some major city locations on an almost monthly basis, other areas are experiencing stagnant or declining prices.

Then there's the question of what type of asset would best complement your property portfolio and ensure your continued success in building a viable post-work income.

A properly qualified, professional buyer's agent can be an invaluable source of knowledge on any location you might be considering. They can help you qualify an area and property investment based on:

The historical rate of growth and potential future capital gains.
Specific streets that represent best value for money and buying opportunities for investors.
Local tenant and owner-occupier demographics and what type of property is in constant market demand.
Underlying drivers, including the strength and viability of the local economy and industry.
Your personal investment strategy and objectives.
Importantly, buyers' agents often have well-established relationships with local real estate agents and as such, may be able to access stock before it is advertised on the open market, giving you the potential to pip the buying competition at the post

Seal the deal

When it comes to finalizing your property investment acquisition, the fee you pay a buyer's agent can prove to be a very smart investment indeed. A buyer's agent can:

Save thousands when negotiating on your behalf, understanding how to parley effectively with other parties and accurately assess the maximum price you should pay for a property, without over-capitalising.
Remove the emotion from the transaction to ensure you invest with your head, based on facts and figures, and not your heart.
Stand in for you at auctions, using their knowledge of the process to help secure the property at the right price and again, ensure you don't get caught up in the excitement of a bidding war and end up paying too much at the fall of the hammer.

What will it cost me?

So what sort of investment will you have to make to secure the assistance of a properly qualified and experienced buyer's agent? While fees vary, depending on the level of service you engage your buyer's agent to provide, generally the associated costs will be around 1.5 to 3% of the purchase price, plus GST.

If you engage a buyer's agent for the sole purpose of negotiating a deal on your behalf, the charge is typically set at around 1% plus GST of the end purchase price.

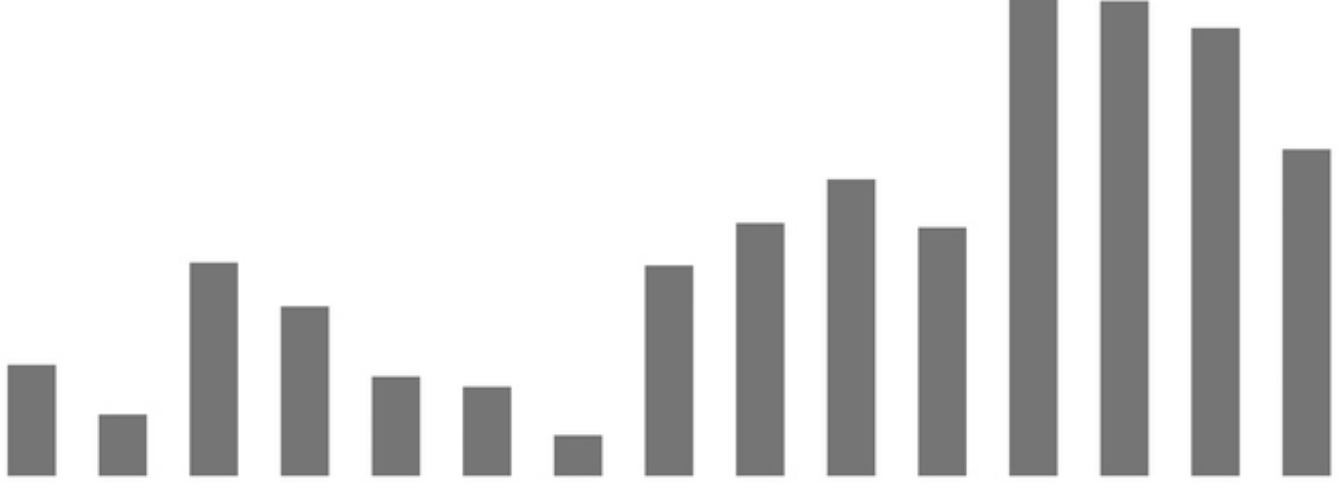
Generally, a set fee of around \$500 plus will be charged if you hire a buyer's agent to literally 'do your bidding' at auction, with the potential for an additional commission arrangement should they successfully secure the property.

How do I qualify a buyer's agent?

As with anything, not all buyers' agents are created equal. Identifying a good buyer's agent can obviously make all the difference to the success of your property investment endeavours. So how do you sort the chaff from the hay?

1. Are they personally familiar with the property investment game? You want someone who has walked the talk, and has a personal interest in utilizing real estate to create their own extensive property portfolio.
2. Are they qualified? Find out if they have the appropriate knowledge of the property industry and are properly equipped to offer advice on the housing market.
3. What is their track record? Ask to see a history of their recent purchases on behalf of clients and seek out client testimonials.
4. Are they familiar with the local area? You want someone who understands the intricacies of the market you're looking at and the underlying drivers for housing in the area.
5. Do they have the contacts required to find out about deals before they hit the market?
6. Are they industry accredited and associated with a governing body such as the Real Estate Buyers Association of Australia (REBAA)? Do they practice according to a set standard of professional guidelines?

Perhaps the most important question you should ask to qualify a potential buyer's agent is whether they are truly 'independent'. If they accept any type of commission from real estate agents, vendors or developers, you should be skeptical as to their objectivity when suggesting a certain product. Likewise, be wary of a buyer's agent who has his or her own product to sell!



Getting To Know Your Market - The Importance Of History Sales Data

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Nothing is more important when undertaking the journey into property investment, than education. The education I speak of however is not something static. Rather, it should be an ongoing process that accommodates your changing needs and trajectory as an investor.

Being as informed as possible is particularly critical at point of purchase. When you find that potentially perfect asset to add to your growing portfolio, it's time to knuckle down and do some serious research.

Ask any buyer's agent and they'll tell you one of the most important insights you can glean into a prospective investment property is the sales history of the area in which the dwelling is located.

More specifically, you want to focus on comparable sales. That is, properties which have sold in the same vicinity with a similar style, building and land size.

What is it and why is this data important?

Logically, sales history refers to the prices properties have sold for in a particular area, at a particular time. Often data will include details such as land size, property type, number and composition of rooms and of course, the sold price.

There are various reasons it pays to have this information to draw on when drilling deeper into any possible investment opportunity you identify..

Firstly, you'll know whether the agent has done what agents are renowned for doing in Australia, and that is listing the property at an obviously inflated price. This provides an important edge for the negotiation process. If you find a tired dwelling in need of some sprucing up, comparing sale prices for similar houses that have already been renovated can give you an excellent benchmark for value add potential. It will also give you an insight into the maximum you should invest pre-improvements, in order to ensure there's a decent gain to be had at the end of your hard work.

Ultimately, this knowledge will prevent you from over-capitalising on an investment, leaving you better positioned to pay fair, or under market value – the ideal scenario for an investor seeking maximum capital growth.

How do you find it?

The good news is with such a plethora of information available across multiple online resources and property portals, there's no shortage of comparable sales data for you to explore on practically every region in Australia.

Some you can source at no cost, while more comprehensive stats and facts tend to come at a price, albeit generally quite reasonable.

The more popular free sources of comparable sales data are:

realestate.com.au - In the 'sold' tab you'll find a wealth of free information to kick off your search, with further details being added all the time. A recently included feature also gives you a glimpse into the history of the agent selling the property and his or her past performance. Excellent knowledge to have under your belt when it comes time to negotiate!

onthehouse.com.au - Although this resource only holds probably about one to two thirds worth of available house price data at any given time.

domain.com.au - Not quite as extensive as its major rival above, but well worth a look nonetheless. Investing in further knowledge is often a good idea, and don't forget that the money you pay to research a possible real estate asset could be claimed as a deduction at tax time.

Subscription services offering great value for money when it comes to sales history reports include RP Data (by far the most comprehensive due to its use by practically every single real estate agency) and Real Estate Investor, which attracts a monthly access fee.

Remember, sales history data is the number one method successful buyer's agents use to benchmark a potential investment property against others in the same vicinity. Seeking out this information will give you an immediate and significant edge on the game. Who wouldn't want that?



The Blurring Of Bank Lines Is Diluting Housing Data

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When one goes witch hunting in Australia's property market, it's likely you'll be seeking out villainous overseas and local property investors to burn at the proverbial stake. After all, we're the evil force that must be stopped from securing our financial future through real estate.

It's no secret that a lot of scapegoating continues to occur around Australia's continually climbing property prices, which many analysts say are heading toward 'unsustainable levels' of growth.

Seriously though. Why wouldn't you want to park your money in something relatively risk free, offering generous returns, in a low rate environment, when the same low rate environment is seeing savings account returns tank?

Really, it's not rocket science. So yes, chances are as more people become educated around things like superannuation and a self secured retirement income, we will see further activity in the housing market from investors.

This is where things start to get interesting though. You see, all of that vilification worked to make regulators swoop in and mount a direct assault on lending to investors for property acquisitions.

They told the banks no more than 10 per cent growth in investor based borrowing per annum was allowed! And the banks seemingly complied, upping interest rates independent of the RBA in a series of calculated moves over the past 18 months or so.

Everyone applauded the apparent capital gains slowdown that ensued.

But now it seems heated markets didn't actually lose that much appeal in the wake of a couple of percentage points. The hiatus was remarkably brief, and minimal in terms of any real cooling effect.

Up again

Reports from the Reserve Bank indicate that housing investor credit grew by 0.8 per cent in December. While separate data from the ABS revealed an investor led surge in lending by 4.9 per cent for November, with both figures representing the largest monthly increase since June 2015.

This wasn't an isolated incident either. Rather, it was the sixth increase in seven months, rocketing the value of investor finance up by 21.4 per cent on the previous year.

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And with data indicating an annual median dwelling price rise of 16% for Sydney and 11.8% for Melbourne, even as gross rental yields drop to record lows; it's once again investors in the hot seat.

CoreLogic's head of research Tim Lawless says, "While rental yields plumb new lows, investment in the housing market has been consistently ratcheting higher which implies that investors are speculating on further capital gains in the housing market."

Well Tim, with the associated tax benefits of investing in property and capital gains in the vicinity of 99.4 per cent for Sydney and 85 per cent for Melbourne since 2009, who could blame us for 'speculating'?

Of course this means we are also placed firmly in the affordability blame firing line. Investors have become the perceived bane of the humble middle income earning Gen Y's and Millennials.

Stoking the investor driven fire

But what of the role Australian and overseas lenders have to play in our continuing property prosperity?

The only reason investors have been able to extend our reach into real estate is, after all, because the banks were willing to fund us to do so. They had cheap credit on offer, and we took them up on that with handfuls of our own equity.

Well as we know, the lending 'free for all' that saw banks enticing investors in with special offers was nipped in the bud around the middle of 2015. The banks were slapped on the wrist and told to behave. Regulators thought the brakes had been applied.

But was this ever really the case?

Blurred lines

Interestingly, the banks are currently undertaking a somewhat collective reshuffle of their lending books. Coincidence? Perhaps. But it does seem more like convenience.

Latest monthly figures from industry watchdog, the Australian Prudential and Regulatory Authority (APRA), included a staggering \$3 billion revision to ING Bank's investor and owner-occupied loans, as some of the major players continue to reclassify their respective lending books.

Whilst distorting the overall lending landscape when it comes to who owes what and the assets securing that debt, this data revision also means lenders are claiming less exposure to the heated property investment market than what regulators first thought.

The Reserve Bank recently published figures estimating that \$48 billion worth of loans had been reclassified over the past 18 months, with \$900 million switched in December alone.

The trigger? Why, that regulatory intervention of course, which saw vast amounts of borrowers switching the purpose of existing loans.

Martin North of Digital Finance Analytics said, "There are adjustments in these numbers which make them pretty useless, especially when looking at the mix between investment and owner-occupied loans."

He said poor quality data collection, keeping and management by lenders, along with a lack of transparency, were making it nigh on impossible to form a clear picture of the housing market.

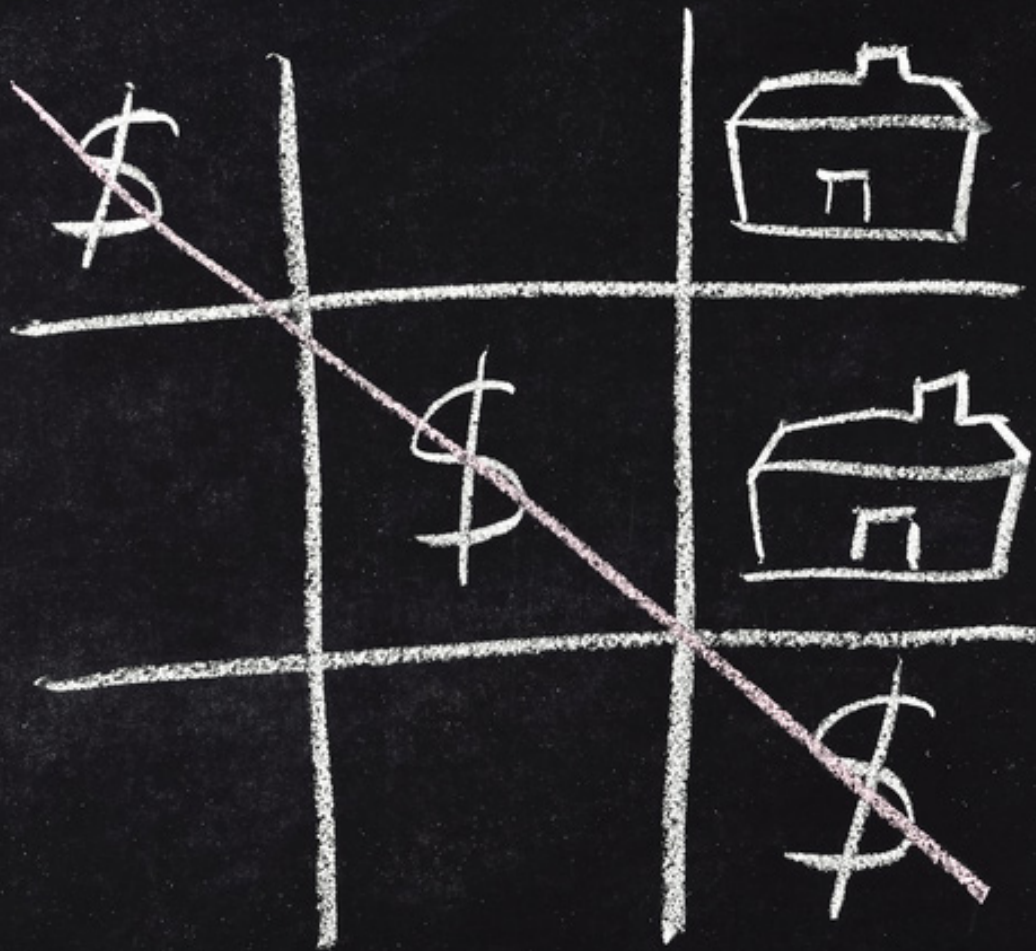
"Given the debate about housing affordability, we need better and consistent data," he said.

Whether it's a happy coincidence due to antiquated internal accounting practices, or something contrived to appease the 'powers that be', RBA governor Philip Lowe says lenders are "complicating" the central bank's understanding of the housing market, and clouding APRA's ability to properly monitor investment lending growth.

The recent reclassification undertaken by ING for instance, means the lender's investor book has diminished by a rather impressive 40 per cent over the past year alone.

What does it all suggest? Well, for one, it might be time to start looking at the actual cause of all the calamity and stop pointing the finger at mum and dad property investors simply trying to get ahead in retirement.

If lenders are prepared to dish it out (and then casually reclassify it), chances are there'll be enough willing recipients waiting in the wings (with a bunch of equity) to take it.



The Middle Income Property Conundrum... A Growing Social Divide

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Low interest rates are leading to an overseas and local investor driven property bubble, along with an unprecedented apartment construction boom. However, an ongoing housing shortage, coupled with continuing strong buyer demand continues to place upward pressure on dwelling prices.

The bottom line though, is one that encapsulates all of the above and more. It's the definitive economic, social and political dilemma of the day. And it just won't go away. It's the affordability crisis plaguing young Australians.

If any of the above highlighted words seem familiar to you, it's entirely understandable. These terms are dominating digital and print news headlines, both here and across countries with similar financial and political systems to our own.

What's interesting about the affordability debate is that there are two very distinct sides arguing black and white theories, in what is surely a murky grey area, given regulators and policymakers are struggling to make sense of it all.

And the big question...are our polities listening to the ongoing conjecture, or planning to do anything about it? If indeed, there is an 'it' to do something about?

So maybe we should start there and pose the question; Has Australia's housing become unaffordable for today's first home buyers, compared to when their parents entered the property market some two to four decades ago?

Ladies and gentlemen...arguing for the affirmative

In a recent piece written for The Australian, KPMG demographer Bernard Salt argued that younger generations are not merely a 'bunch of over-privileged whiners', as their detractors suggest.

It's not delusional, out of reach goals set by twenty somethings that are locking them out of key, urban property markets; it's median house prices rapidly outpacing median middle-income household's financial capacity.

"The best measure of housing affordability at a global level is a series of reports by the US-based consultancy Demographia," says Salt.

"The 2017 report released in January looked at 92 cities with more than one million residents across nine countries comparing the median cost of housing with median household income.

"Sydney ranks second on this list after Hong Kong with a median multiple of 12.2, meaning that it takes more than 12 years of household income to buy a median house in the harbour city."

No home buying Sydney-sider would be ruffled by the revelation of their hometown's number two ranking on the Demographia list.

But we also have Melbourne coming in sixth, with a median multiple of 9.5, and Adelaide and Perth get a mention among the Top 20 cities, "commanding median multiples of between 6.1 and 6.6," says Salt.

In dollar terms, this translates to a median house price of \$1.077 million in the Harbour City, while the average income is just \$88,000.

Working our way back then, if the argument is that housing's becoming increasingly unaffordable in our major cities, what was the median multiple discrepancy five years ago? For Sydney, the answer is 9.2 and for Melbourne, 8.4.

Again, Salt provides the dollar values to put that in perspective: "In the last five years household income in Sydney has increased by \$9,000 while median house prices have increased by \$439,000.

"House prices are sprinting away from Middle Australia in Sydney and to a lesser extent in Melbourne and in other capitals."

Please explain...

Salt initially suggests that perhaps we should simply get used to what might be 'the new normal'.

"As concerning as this is for our nation, and especially the capital cities that the Australian economy, there is another aspect to the Demographia dataset that I find compelling. Maybe Sydney and Melbourne are simply joining the ranks of elite global cities that have always struggled to deliver affordable housing?"

But he quickly debunks this notion, with a comparison of London, where the housing multiple is less than Sydney and Melbourne's at 8.5 and New York, which is more affordable than Adelaide at 5.7. What about the bustling Japanese capital of Tokyo then?

"Let's compare affordability in Australia's biggest cities with the Japanese behemoth (Tokyo), which has 38 million residents spread across an area twice the footprint of urban Sydney," says Salt.

"The median house price in Tokyo-Yokohama is 32 million yen (\$379,000) whereas average household income is seven million yen (\$81,000), which delivers a housing multiple of 4.7. How is it that Tokyo can deliver housing affordability but Sydney cannot?"

Fair question Bernard.

The ripples

REA chief economist Nerida Conisbee, reports in a recent interview with The Urban Developer that the flow on effect of Sydney's affordability barrier has seen the NSW Central Coast emerge as a new regional retail, commercial and employment hub.

"The Central Coast is overwhelmingly coming up as the area outside of Sydney that is quickest selling, with certain suburbs within the region registering the fastest movement in popularity," she notes from REA data.

Not only is the region enjoying increased appeal due to the easy, direct commute available via public transport to the Sydney CBD, but also because you can still buy a four bed, two bathroom, double garage home "well below a million dollars, which is extraordinary value compared to inner Sydney," says Conisbee.

What now?

While Salt acknowledges that there are still relatively affordable options for first homebuyers in areas further afield from our big cities, he uses the below pictorial to demonstrate exactly how much further out younger people are expected to commute from their CBD workplaces.

Salt explains that the map highlights "Melbourne's affordability line; it delineates median house prices above and below the \$600,000-mark. Housing affordability as defined starts at Thomastown (\$478,000) to the north, St Albans (\$519,000) to the west and at Altona Meadows (\$523,000) to the southwest.

"But this also means that housing unaffordability in Melbourne (with the median exceeding \$600,000) extends across 60 unrelenting kilometres between Caroline Springs in the west and Belgrave in the east."

And Sydneysiders are expected to commute even longer distances for affordable housing options.

Conisbee acknowledges that, "Lack of affordable housing is an economic problem. An economy can't run with only very high-income earners.

"You also need people on more moderate incomes such as nurses, teachers and trades to support hospitals, schools and building. Sydney is too expensive and it makes it very difficult for people on average salaries to buy and rent."

She adds that while it may be a "throw away comment", since former premier Bob Carr declared Sydney 'closed' to developers in the year 2000 there have been.. "very low development levels in Sydney with regard to pretty much every single aspect of commercial and residential property."

Not to mention the incessant planning issues and red tape that came with too many local council cooks all toiling over the city's infrastructure planning, which have since been thankfully amalgamated.

But the question remains..exactly how do you find the solution to this multi-faceted affordability conundrum faced by future generations?

So is there a solution?

Salt says a good place to start when addressing Australia's big city affordability barrier is through a comparison of planning policies with other cities in the world that still offer entry level options for homebuyers.

"Is this the result of housing policies that we can copy or adapt? Or is our inability to deliver affordable housing a product of greater societal and planning issues unique to Australia? The former promises a quick solution; the latter would require time — decades, even — to bring about a favourable outcome."

Either way, Salt says the housing affordability issue is not going to get any better until positive action is taken.

"To have an entire generation affected by a shift in the social contract of reasonable access to capital-city housing diminishes our nation's social cohesion. This is an issue that will beset politicians of all persuasions for years to come."