Nothing To Fear, But Fear Itself

This Issue:
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TRILO3Y news
"the property investor's mortgage broker"

Just when you think the noise surrounding our property markets can't get any louder…here we are! Booms, busts and panic stations are the order of the day.

It's easy to understand why some investors are becoming a little jittery. But when all is said and done, the only thing you should really fear as an investor…is fear itself.

The difference between a property portfolio built on the foundations of clear outcomes and a well-defined strategy, as opposed to one built on fear, is glaringly obvious. The former will flourish and thrive, while the latter will falter and languish.

Because when you make decisions based on fear, you're working from a place of powerful emotion. Emotion that sends messages to an ancient control centre in our brains called the amygdala. That is, the part of our brain that controls our fight or flight response.

In moments of fear, anger or agitation, it's the amygdala that fires. This was a very necessary mechanism when we could have been eaten by a tiger at any second. But those days are long gone for most of us. Even though our modern world and associated stressors still frequently trigger the amygdala into action.

Physiologically, when we act in fear, we're pretty much acting in a state of diminished brain capacity.

We cannot possibly make rational, creative, solution based decisions because all the blood is pumping away from our brain and into our limbs, in preparation to either hit something, or run as fast as possible in the other direction!

So, how do we overcome our fears in such an intensely paced world, and retain our reasoning and optimism to want to solve our problems, in the face of constant fear triggers?

Here are five ways the gurus get around their fears, to manifest their heart's desires…

1. Know thyself

Understanding who you are, why you do what you do, and where you hope to end up as a result of your actions is fundamental to your journey. We're all born with a unique path to walk, which is invariably changed and adulterated by all of the various influences that come and go in our lifetime.

Our experience of peers in school playgrounds and then office cubicles will influence who each of us becomes. And if we forget who we are in that process, it's easy to get swept along on someone else's ride, at the expense of losing your own way.

Here's a tip to know whether you're acting in your own truth and according to your own needs and objectives, or walking someone else's path…does it feel right for you? If it does, keep going. If it doesn't, go back and ask yourself where you might have lost focus and direction…

2. Trust thyself

This is a huge one! The antithesis of fear is trust. You're either making decisions around your investment journey grounded in trust for your own planning and decision making, or fearing that you're about to commit some cardinal investment sin and end up destitute!

When you REALLY know yourself, you'll have a much easier time trusting your own inner voice, rather than looking to every other 'expert' to guide your financial future.

3. Meditate!

Think long and hard about your decisions before making them, and potentially setting wheels in motion that you may later regret having ever rolled. The more time you spend reflecting on a thought or idea, the more likely you are to make a calculated choice based on logic.

There is a fine line however…meditate on it too long and you could be unwittingly setting yourself up for a state of fear driven inertia, having thought yourself into a state of worry.

4. Acknowledge your strengths and admit your weaknesses

We all have both. There's no denying it. I can string a sentence together, but ask me to draw you a picture and it will be a very sketchy stick figure at best.

When you trust in and know yourself, you'll be willing to put aside ego and admit when you need help to unravel the millions of conflicting messages around property markets, that can send even the most educated investor into a state of fear driven mayhem.

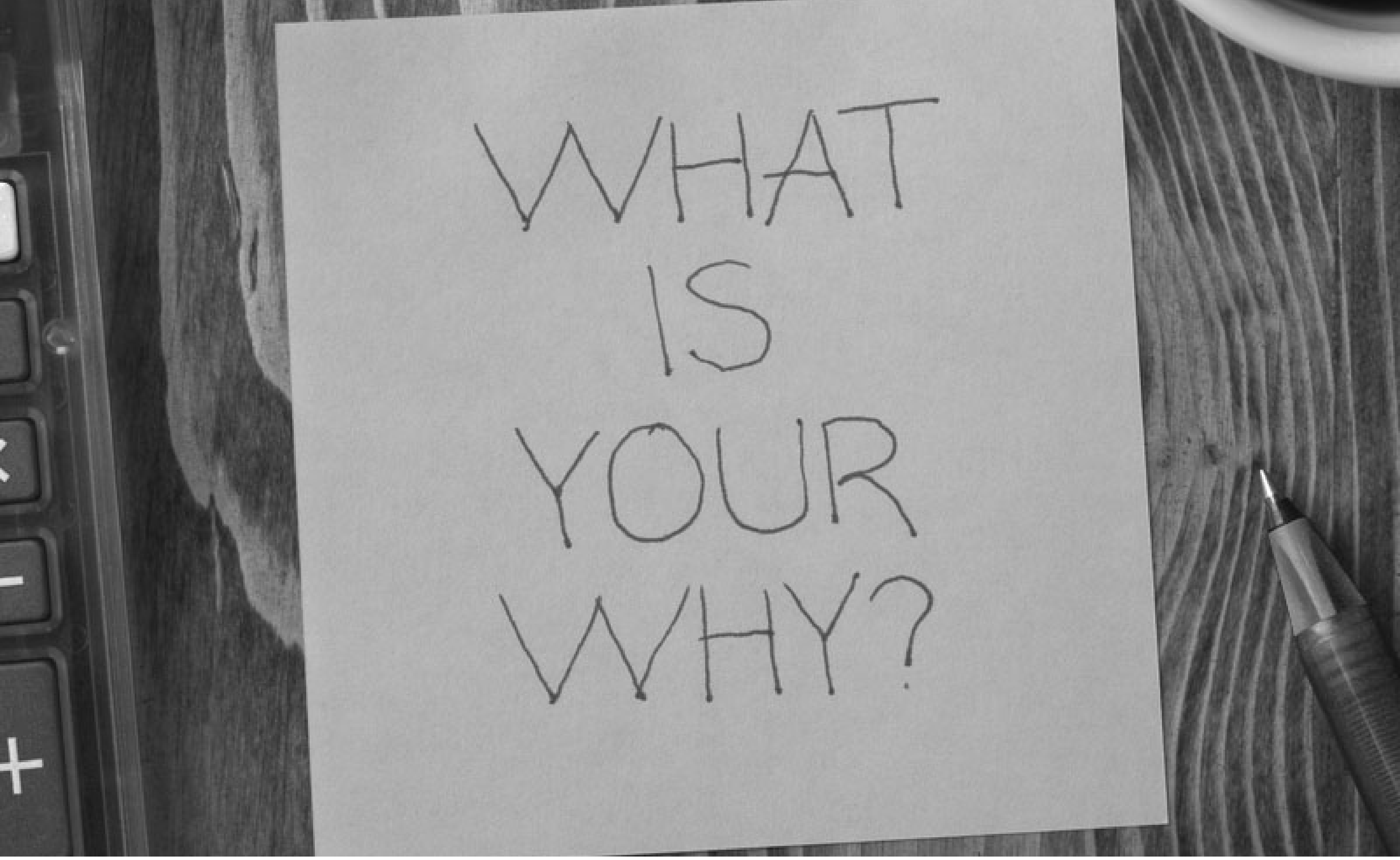
5. Share the love!

If trust is the antithesis of fear, love must be right behind. Sure, it may seem as though I'm ending on a bit of a hippie high note with our list of ways to overcome your fears, but the fact of the matter is, we get what we give.

There's a lot of emerging scientific theory that suggests whatever energy we send out into the world, so we attract like energy back. Not to mention that when we feel good, we tend to make better decisions because our brain chemistry is nice and balanced.

So there you have it…I may not have aligned your chakras with these insights, but I can tell you that success always features a key ingredient, and that is a self confidence, which prevails over fear every time.

Sure, that confidence is perhaps misplaced on occasion when you look at the success of some reality TV 'stars' (cough…Kardashians…cough). But that's my point. They don't listen to the haters, because they believe in themselves! And so should you!



So…Why Do You Want To Become A Property Investor?

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Was this the very first question you spent serious time contemplating, before embarking on your investment journey? Hopefully it was and you did…and are well on your way to the success you dreamed of.

For many beginning investors though, the incentive for them to take a large chunk of savings that they probably worked hard to accrue over say, five to ten years is unclear. They never really took the time to consider and identify their reasoning.

The whim

Some people seemingly start buying bricks and mortar assets on a mere whim. Whether someone they know regales them with tales of impressive capital gains and rental returns, or a well versed property spruiker hooks them with a 'too good to be true' tagline, they jump in at the deep end with nary a concrete goal in sight.

Sure, on some abstract level they know they want to make money. But the how's, whys and wherefores go unanswered. As such, they can easily be led down the wrong path, or simply start journeying down it without appropriate direction.

The good advice

Guidance can be another issue when you don't have the confidence in your convictions, to stick with what you know will best work for you and your personal circumstances.

It becomes easy to fall prey to some of the less than scrupulous advisers and self-proclaimed 'experts', attracted to real estate like bees to the proverbial honey.

It may even be an accountant with the best intentions, who simply doesn't understand what makes you tick and inadvertently leads you down the garden path.

The one big thing…

Is without a doubt the 'why'? What motivates you to get up every morning and keep on keeping on? It's a question every one of us should consider carefully, just so we have better insight into our own values and ideals, and purpose for being here.

I know…deep right?

But in this line of work, the people I see most often do well are those who can clearly recognise and maintain sight of concrete outcomes, with genuine forethought and self-awareness.

It's not just about making X amount of dollars over a pre-determined timeframe…although this should of course be a part of the strategic planning process.

It's more about what you intend to do with that money. What type of lifestyle will it be paying for? What do you intend to bequeath to your nearest and dearest to ensure their future is looked after? What is the non-monetary goal that drives your financial strategy?

Taking in the big picture vision will allow you to set tangible and achievable, incremental goals that can lead you, inch by inch, closer to that ideal outcome.

Ask yourself and respond in earnest…

1. What is your emotional reason for investing?
2. What type of ends do the means need to facilitate? What will you use the passive income stream from your portfolio to pay for?
3. How do you intend on transitioning from a life of work to a life of leisure?
4. How will property fit into your long-term financial plans?

If you don't take the time to answer these important questions, chances are you'll either fail to invest in the most beneficial way for your requirements and circumstances, or take advice from self-serving third parties and lose money in the process.

Why would you spend all the time, money and sacrifice that's essential in the early days of an investment career to build retirement wealth, without having a clue why you're doing it?

You want to know it will all be worth it. You want to know there's that shining pot of gold, with your name on it, at the end of the real estate rainbow.

Stop Looking For The Off Switch! Why Property Will Keep The World Turning

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Talking with people these days, I often hear similar concerns as to 'the way the world is heading'. Be it at dinner parties, or standing in line at the local grocery store checkout, everyone seems a little on edge.

It's hardly surprising we're all feeling 'a bit off'. Some will tell you its waxing, waning or otherwise mischievous moon transitions; others suggest time is literally speeding up, creating a very different 'vibe' here on planet earth.

(On a side note, apparently 'science' has confirmed the quickening time theory as fact! Intriguing, no?)

If you're thinking I'm getting a tad too esoteric for a mortgage broker blog, let's meander back up the rabbit hole and talk about tangibles. Real-life, unprecedented and unusual events that we're exposed to every day.

And let me ask…have you too noticed some strange happenings in the property and finance sector for some time now?

Never before' has become the new normal

I've been a part of the property and finance industry for too long to contemplate. Traditionally, although there's always been so-called 'X-factors' influencing the market cycles we're so familiar with, a few fundamentals have remained constant and importantly, relatively measurable.

In this post-GFC era however, property investor Inboxes have become clogged with newsfeeds full of unprecedented industry goings on.

Whether its continuing low interest rates, spikes in investor based borrowing, increases in foreign purchaser activity, affordability barriers for first home buyers….the list goes on and we hit a new high with virtually each week that passes.

House prices on a rampage!

The way property values are discussed in today's media has seen the market take on an animated life of its own.

Said to be 'on a tear' and 'growing exponentially', the extraordinary rates of price acceleration bring to mind giant, man eating Triffids traipsing through inner city suburbia, swallowing first home buyers whole.

According to a recent report from Bloomberg, house prices in Sydney have risen by an impressive 73 per cent in five years (close to 15 per cent per annum), while down in Melbourne the increase has been 52 per cent.

Of course the usual suspects are trotted out to justify our record 'boom'…namely ongoing cheap housing credit and a continuing accommodation shortage…but there's also mention of us pesky property investors and the favourable regulatory context in which we are fortunate to find ourselves in.

No stopping it

The Bloomberg report notes the investor perks of negative gearing legislation and capital gains tax discounting, making property an attractive prospect for many Aussies. Particularly those who might need to offset a large tax liability.

A number of vocal, housing affordability advocacy groups have called for the abolition of negative gearing, arguing this would make the housing markets fairer for everyone, not just equity laden investors.

But when you consider that the majority of highly paid public servants in Canberra are themselves invested in our housing markets, it's not really conceivable that this tax environment will change any time soon.

Particularly when an estimated 40 to 60 per cent of all loans written by the major banks are secured by residential property. As pointed out by Bloomberg, this makes house prices "a matter not just of politics but financial stability."

Walking the line

Bricks and mortar has arguably become the backbone of every developed (and developing) economy in these post-GFC times, and Australia is no exception.

As our economic reliance on real estate transactions, and the new infrastructure and employment that often accompanies a property boom continues to grow, a very delicate balancing act is occurring on the sidelines.

On the one hand is a favourable regulatory context for investors to keep dabbling away in the housing markets. While on the other, an entire generation is at risk of being completely locked out of property ownership contention.

As such, a push me-pull you tug of war is ensuing among regulatory bodies, with governments seemingly reluctant to revise tax legislation to make property investment less attractive, even as APRA and the RBA try to come up with ways to contain investor spending in the sector.

Accompanying continuous reports of 'unprecedented circumstances' in our real estate markets, both here and overseas, is always an underlying threat of regulator intervention to put a stop to the 'runaway residential housing' train.

But it's a damned if you do, damned if you don't, Catch 22 unlike no other that's keeping things ticking along with seemingly no end in sight right now.

Pull the rug out with too much regulatory fiddling and you'll have a
flailing industry that will in turn see a potentially devastating dive in private and public infrastructure spending, ultimately leading to a slump in employment, and consumer and business confidence.

Leave it all to keep running its course and what might happen? Further unprecedented outcomes no doubt.

Even though regulators have made attempts to shackle the beast that is bricks and mortar values across our major urban corridors, all that's really occurred are a few trivial 'slowdowns', with momentum building once more in recent months.

In fact, you could almost dismiss the alleged 'slowdowns' we heard about toward the end of last year as little more than standard seasonal fluctuations.

Sure, some punters were no doubt scared off, or even squeezed out of play by tougher loan assessment protocols introduced to counter a jump in investor based borrowing, but the status quo hasn't really altered dramatically.

In other words, the favourable regulatory tax environment we have here in the Lucky Country continues to trump the finance police. Check. Mate.

And let's face it…why would you want to stop the one thing you can rely on to keep money changing hands, when most other traditional political, economic and social constructs of our capitalist based system appear to be faltering? It would be political suicide to do so.

Watch for the fallout

While the powers that be cannot afford to halt the property train in its tracks, they'll most likely apply further pressure on the brakes in an attempt to reduce some of the heat around our ongoing housing affordability issues.

Loan to value ratios are an obvious area that can be manipulated to control how and where housing credit is distributed, as we've already witnessed with many lenders changing the maximum amount borrowable for investor clients.

And there's a groundswell of conjecture from economic commentators that the next move we see from the Reserve Bank will be an increase to interest rates, if anything. But it may not be until as late as next year when they finally make their move.

Westpac's chief economist Bill Evans begs to differ however, suggesting a cut is more likely on the cards, but that macroprudential policy will be used to do what interest rates cannot.

"Given that both Sydney and Melbourne prices are up 14%, the RBA and APRA may be considering even tighter macro prudential policies," Evans noted on the basis of CoreLogic data.

Certainly when regulators tightened the screws previously there seemed to be a stumble in activity. Maybe it's a matter of turning the wheels a little harder next time?

"If, as we expect, the Bank will get around to adopting additional macroprudential policies to slow housing in the second half of 2017 the stage will be set for another year of steady rates in 2018," says Evans.

"With the economy slowing and macroprudential policies further tightening housing markets, the risks to rates in 2018 will be to the downside rather the upside as currently expected by markets."

For us investors, this represents a double-edged sword. Because although there'll likely remain cheaper credit to leverage into housing with, the goalposts as loan applicants will move further away.

Now is the time to really review your financial portfolio and plug any potential holes in your credit structure. You need it to be irrefutably airtight.

So…is it a bubble

Well…that depends who you listen to. According to the CBA, typical bubble signs are "not evident", reports Bloomberg. But again, what's really typical these days?

Conversely, Australian economist Lindsay David has termed this "the largest housing bubble on record."

And the beat goes on…

Sydney Soars To Insurmountably Unattainable Limits For The ‘Little Guy’

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Affordability has become the quintessential 'issue of the day' for Australia's major urban property markets. Of course I refer namely to Melbourne and Sydney, with the latter being the prickliest thorn in the side of various government regulators right now.

Even as the Victorian state government announced its plan to help first homebuyers claw their way back to the threshold of the proverbial property door this weekend past, reports have emerged that make Sydney appear even further from the reach of those trying to enter the real estate market.

Daniel Delivers

Victorian Premier Daniel Andrews, announced a cost-of-living package on the weekend to help those who "feel like they've been locked out of the housing market" in Melbourne.

Seemingly seeking tangible solutions to ongoing concerns around an entire generation that's been forced onto the periphery of property circles as lifelong tenants, the Andrews government will make drastic amendments to the state's stamp duty tax legislation in July this year.

First homebuyers will no longer incur any stamp duty liability on a property purchased for $600,000 or less. And substantial stamp duty concessions will apply to properties between $600,000 and $750,000, be it a new or established dwelling.

As usual, fear mongers were at the ready, suggesting the changes could see a further spike in housing markets already said to be 'overheated'. But according to the government's numbers analysis, the uptake as a result of this tax break won't be so staggering as to create a 'disturbance in the force'.

It's expected around 25,000 people per year would benefit, with average savings for first time buyers in the vicinity of $8,000.

"This will help them get their foot in the door," said Andrews. "It means they can put extra money towards what matters most – buying their first home."

Indeed, some of the potential savings are not to be sneezed at. The biggest winners are those who outlay $650,000 on a home. They'd currently pay $34,000 in fees, but as at July that will be reduced to about $11,000.

The government's generosity will cost the state budget $800 million over four years. But it doesn't end there.

The first homebuyer's grant, which is currently $10,000 for anyone buying a newly constructed property for under $600k in Melbourne, will be doubled for regional Victorians.

In other words, if you're a first time buyer, looking to purchase a brand new home in the country for around $650,000, you could save close to $33,000!

Mind you, considering how much the state has raised in stamp duty revenue since the local market started on its boom phase some time ago, they can afford to exercise some good will.

In 2013-14 the state took $3.5 billion in stamp duty. Fast-forward to the present day, and the government currently rakes in a whopping $5.7 billion through the detested tax. So that $800 million blow to the budget? Yeah…chump change!

Treasurer Tim Pallas said the reforms were "important steps towards ensuring today's families and future generations will be able to afford somewhere to live."

In a direct dig at big brother in Canberra, and the seeming inertia coming out of the capital around the affordability issue, Pallas adds, "The federal government may know how to talk about housing affordability – but this is what real action looks like."

So…what are you going to do about it?

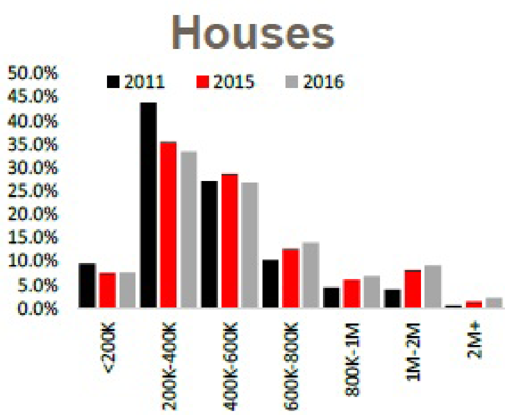
A recently released, five year retrospective analysis of median dwelling values across Australian suburbs demonstrates the reality of our nation's ongoing affordability crisis.

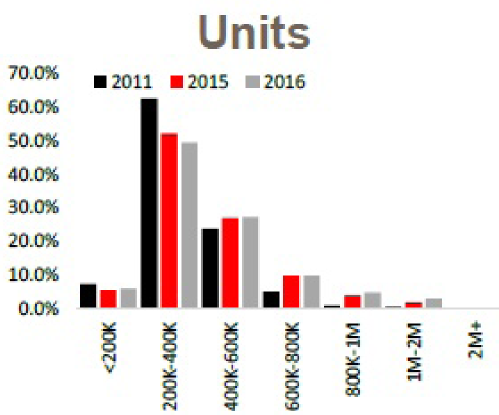
Even though numerous commentators and government regulators have attempted to lay blame for the problem on a whiny, over-indulged younger generation with ideals beyond what they can reasonably afford.

At the end of 2016, only 7.6% of suburbs across the nation had a median house value under $200,000 and 5.9% had a median unit value under $200,000.

Conversely, 11.4% of suburbs had a median house value of at least $1 million, while 3% had a median unit value of $1 million plus.

Highlighting the affordability decline further, in 2011, 53.5% of suburbs had a median house value of $400,000 or less and 69.8% had a median unit value of $400,000 or under. By the end of 2016, these proportions had fallen to 41% and 55.3% respectively.





Logically, if you want to talk about where reforms are required to make the affordability issue a little less of, well, an issue, for first time buyers, then we cannot neglect to mention Sydney.

In 2011, the proportion of Sydney suburbs with median house prices of $400,000 or less was 21.2%. Units painted a brighter picture at 38.8%.

Fast-forward five years later, and the figure for suburbs with a median house price of $400,000 or less now sits at 0.1%. Yes…you read that correctly! And for units? Well, only 6.5% of Sydney suburbs harboured options under $400,000 at the end of last year.

Alarmingly, the figures reveal that there are now more suburbs across the Harbour City with a median house value of $2 million than under $600,000.