What Is Your Worth As An Investor?

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Most people, when asked about their biggest worry in life, would respond with "Money," or more specifically, a lack thereof.

Interestingly, there have been many studies conducted into the psychology of money. What makes some people better at attaining and keeping large sums of the 'green stuff' and what keeps others in a cycle of mediocrity or worse, poverty?

Would you believe that most research in this area presumes a direct correlation, a symbiotic relationship if you will, between how much value you place on yourself as a person, and how much money you'll manage to accumulate in your lifetime?

How our thinking shapes our bank account

When you look at most successful people, those renowned for being particularly good at something and in turn, attracting vast sums of wealth (even if it IS only reality TV!), what's the one
personality trait they all have in spades?

Confidence! We might laugh at some of the so-called 'stars' of today's world and the questionable means by which they gained their status, but they couldn't care less what we think of them! Why would they? They're the ones with the money remember?

People who think highly of themselves naturally tend to behave in ways that enable them to attract greater financial abundance, through consistent opportunities to make more money.

These are the folks who see their past successes as even more evidence of their capacity to do well in life, hence that old saying, "Money begets money." They believe in their ability to be
financially successful.

As Jim Rohn once famously said, "Income seldom exceeds your personal development."

How worthy do you feel?

Obviously the biggest impact on our self-esteem comes from childhood experiences, and the various messages we heard from our peers whilst growing up.

While some of us are fortunate to be born into high functioning families and instilled with a strong sense of self, many are not quite as lucky, with limitations and life's struggles detracting from our core of self worth.

Importantly, how our parents and other significant role models act and react as we navigate our way through those critical formative years will leave a lasting impression.

Were we encouraged to get back up and keep on going if we encountered a setback in learning simple things, like riding a bike? Or were we told to stop trying, lest we hurt ourselves or something bad happened?

When you feel worthy in yourself, you're less likely to see each failure along your path as an insurmountable limitation, and more likely to allow and embrace the lesson these 'failures' present.

Resourcefulness and resilience are learnt by working through your perceived failures with an open mind and lack of judgment. It's not about what you did wrong. It's about what you can learn to do differently next time, and the solutions you can implement in life to ensure you don't make the same mistake twice.

It's all about taking action and looking for solutions. All of us will fail at times. But what separates the successful fiscal managers from the 'losers' is the time it takes to acknowledge and accept your failure, then get back on your feet and come out swinging again.

Regulators Ride Again, With Property Investors Back In The Firing Line

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Last week, the Australian Prudential and Regulatory Authority (APRA) mounted up once more, riding into the financial services sector with their posse, the Council of Financial Regulators (CFR), providing additional back up in their ongoing battle with the banks.

In what's being described as an environment of 'heightened risks', this latest move from APRA was entirely expected, coming hot on the heels of increasing speculation that further regulatory intervention was in the wind. It also highlights a couple of things that property investors need to be aware of.

First and foremost, we will obviously see the lending landscape change yet again. The goalposts around how you can borrow and how much you can borrow are set to shift once more.

Secondly, our fiscal 'watchdogs' are getting a little fidgety about how things are heading for us, as a nation, economically speaking.

The greater the risk…

…The more anxious our regulatory bodies become. The last time we saw APRA swoop down to draw a clear line in the sand for lenders was back in December 2014.

At the time, investors were besieging key property markets, namely Sydney and Melbourne, like a veritable plague according to most reports. All those baby boomers burnt by managed super fund and investment failures off the back of the GFC wanted a better place to park whatever equity they had left.

Housing looked like a good option at the time, having been propped up by post-GFC government stimulation in the form of first homeowner boosts and the like.

Suddenly, we were no longer just that traditional nation of budding homeowners harbouring the iconic 'Great Australian Dream'. We were fast becoming a country that recognised real estate as a far more powerful financial asset.

Naturally, our compounding love affair with property has seen more of us seeking a piece of the action. So of course, prices have kept steadily rising in key locations where most of us want to live – large cities with a diversity of industry, infrastructure and employment.

Logically, these locations are already relatively built out. Hence, trying to squeeze more citizens into the likes of Sydney is becoming increasingly tricky, and resulting in undersupplies, excess demand and consistently rising prices.

In summary, these are the aligning risk factors currently concerning APRA…

- High and rising house prices in key locations
- High and rising household indebtedness
- Record low interest rates
- Subdued household income growth
- Strong competitive pressures

Then there are reports that surfaced recently; indicating that investor borrowing among some of the banks was starting to sneak back up beyond that magical 10% benchmark officially imposed by APRA two years ago.

The latest intervention

Building on previous measures to curb 'renegade' lending practices and better manage risk in the financial services sector, APRA wrote to all Authorised Deposit Taking Institutions (ADIs) last Friday with a new litany of requirements, particularly around investor based borrowing.

A few of the new 'demands' are really just reminders of the previous lines that were drawn, including…

- Further reviews of serviceability metrics to ensure net interest rate and income buffers are set at appropriate levels to reflect current conditions.
- Continuing to restrict lending growth in 'high risk' segments, which includes higher LVR borrowers and longer term loans.
- Managing investor based borrowing growth within that comfortable 10% annual margin set in 2015.

In addition however, APRA is now coming down on interest only (IO) lending criteria and practices. All lenders are now being told to limit new IO lending to 30% of total new residential mortgage lending.

Furthermore, banks are expected to enforce strict internal limits on the volume of IO lending for borrowers seeking an LVR of 80% plus, with increased scrutiny of any IO loans above 90%.

In other words, that lending nugget a lot of property investors have come to rely on, the higher IO loan, is set to become a lot harder to secure…

Chairman of APRA Wayne Byers, said the previously set benchmark of 10% growth for investor based borrowing is an appropriate ongoing constraint in the current environment.

"APRA expects ADIs to target a level of investor lending growth that allows them to comfortably manage normal monthly volatility in lending flows without exceeding this benchmark level," he said.

Byers explained the new supervisory measures are intended to ensure lenders recognise and respond to the heightened risks in the current lending environment, as reflected in their respective policies and practices.

He said the decision to target IO loans is due to the fact that they make up close to 40% of all residential mortgage stock currently tied to Aussie ADIs, which is relatively high by international and historic standards.

"APRA views a high proportion of interest-only lending in the current environment to be indicative of a higher risk profile," Byers said.

"We will therefore be monitoring the share of interest-only lending within total new mortgage lending for each ADI, and will consider the need to impose additional requirements on an ADI when the proportion of new lending on interest-only terms exceeds 30% of total new mortgage lending."

He confirmed that APRA will continue to closely scrutinise serviceability assessments, even though the regulator is yet to set official quantitative limits for serviceability at this point.

APRA has also told the big banks it's monitoring the growth of 'warehouse facilities', which allow lenders to build a portfolio of loans for eventual securitisation.

"APRA would be concerned if these warehouse facilities were growing at a materially faster rate than an ADI's own housing loan portfolio, or if lending standards for loans held within warehouses are of a materially lower quality than would be consistent with industry-wide sound practices," said Byers.

Once more, the message for property investors is to be prepared to see the banks start implementing further changes around serviceability requirements, and adjusting their respective suites of mortgage products.

During these times, it's a good idea to be consistent in reviewing your loan portfolio with a mortgage broker well versed in this area.

How you borrow for your investments is now just as critical as how you determine where to buy, because it will be those investors with sound financial structures who'll continue to prosper in these ever changing times.

OTP Apartments Not A Stellar Performer

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When it comes to that age-old question for property investors – a house or an apartment? – things are not quite as simple as they seem. If you do happen to decide on the latter option, there are a few more things you'll need to consider. First and foremost, what type of apartment will see you net the best long-term gains?

According to a recent analysis from BIS Oxford Economics that examined prices achieved for all apartments bought and sold since 2011, the resales for established apartment stock have been consistently stronger than for new apartments purchased off the plan. This was particularly evident in Brisbane and Sydney.

While in Melbourne, more than 50% of new apartment stock was resold at a loss between 2011 and 2016, with the average aggregate forfeiture being 2.7% less than what the vendors originally paid. On the flipside, established apartment price gains averaged 7.4% during the same period.

Moreover, if you happened to purchase OTP in Carlton, West Melbourne or the popular Docklands precinct, you might have copped a loss of as much as 7.44% if you on-sold your apartment five years down the track.

Although Sydney's property market is far too frothy to record any such losses for new apartments or otherwise, the report shows that established apartments in the ever-popular city have reaped the biggest resale returns since 2011, with 25.9% growth.

Whereas those who chose to purchase an OTP apartment in the Harbour City have only seen 7.5% average growth.

BIS Oxford Economics senior manager Angie Zigomanis says of the data, "Because we have taken 2011 as our starting point, Brisbane probably had a couple of years' growth first for people who bought in 2011 and perhaps 2012. People who have bought since then are probably taking the hit."

Meanwhile in Sydney…

…Off the plan apartments haven't done too badly by their owners at all. But as with most profits made in this higher risk sub-sector of real estate, much of the activity has been among speculators seeking to cash in on the Sydney property juggernaut.

According to director of project marketing residential at Colliers International Ian Bennett, some investors have made as much as 40% of their original purchase price by strategically 'flipping' or executing the 'pick and flick' approach with new apartment stock.

"Now they're coming up to settlement at the end of the construction period, people are looking at what they're worth now and, in some cases, deciding to resell for the profit. That means they don't even have to get the finance to settle, they're only paying 25 per cent capital gains tax rather than the normal 50 per cent rate, and they still have 15 months to pay the stamp duty."

Not a bad return for a property transaction that the dust hasn't even settled on yet… literally!

The same type of speculator activity saw many people profit during the first, major apartment construction boom in the late 1990s and earlier this century, when developers were under-pricing stock so they'd pre-sell sufficient quantities to satisfy bank lending criteria.

This time around, the resale frenzy is being driven quite simply by Sydney's phenomenal rate of consistent price growth, and is most evident in high-end neighbourhoods such as Bondi Junction, Darlinghurst, Hyde Park and The Rocks.

Bennett says a two bedroom apartment that might have set you back $720k when you bought OTP three years ago, would now typically be worth around $900,000 plus.

"Sometimes it's people who intended to be owner-occupiers and sometimes it's investors, who were very strong in the market back then," he says.

One of the reasons these luxury apartments are likely selling for such lofty profit margins just a few years on from being acquired OTP, is because people still want to see the finished product before committing to a purchase, even if it means paying more.

Earlier this year for instance, a penthouse apartment in the Barangaroo complex resold for $12.5 million just prior to settlement, after being initially purchased OTP by an Australian ex-pat, for $10.5 million in 2013.

But as with everything to do with the Sydney real estate market of late, this OTP apartment cash cow certainly couldn't be considered "the norm" within such a notoriously speculative sector.

Real estate group CBRE director Murray Wood says profit on OTP resales tends to be very project-specific and is far more likely to occur at the premium end of the market.

"We are seeing some speculator activity, but it is confined to property with a point of difference and where supply is tight," says Wood.

And of course, what happens in Sydney is entirely different to what industry insiders are seeing in other parts of the country.

Others in the sector warn that this bricks and mortar bonanza won't continue indefinitely.

Principal of Harris partners in Sydney's inner-west Peter O'Malley says one in six Brisbane resellers are currently looking at losses due to an apartment glut.

"As an investment strategy, it's flawed," he told Domain. "It's dependent on strong price growth and, at this stage in the cycle, that looks unlikely to continue."

So...should you, or shouldn't you?

As always, the consideration of what you purchase and when should be based on your investment strategy and objectives as a priority. If those objectives lead you to question whether buying off the plan is a viable option for you, there are a few things the experts say you need to consider.

Firstly, who is the developer? What quality of product are they known for and what type of price are they asking? And following that, how does that price compare to the broader market? Are you paying a premium?

Some in the industry will swear black and blue that new apartments always represent an over-priced, high risk investment, irrespective of where or when you're looking at buying one.

On the other hand, some seasoned investors have no doubt made a pretty penny buying new stock in those million dollar plus price brackets.

Brisbane based research manager for PRDnationwide, Diaswati Mardiasmo says the question of whether new apartments are overpriced or not, "depends on the area and how many off the plan apartments are being built."

At the end of the day, it's always a question that only the investor can answer. But I think it's interesting that when things are slightly off kilter, in terms of the overall property fundamentals, we see remarkable gains being made in an otherwise 'riskier' market. Perhaps there's a message in there somewhere...

6 Key Considerations When Renovating to Boost Rental Returns

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If you're a bit of a data fanatic, no doubt you've recently read that some of Australia's residential rental markets are not performing as well as investors might like.

Experts are blaming a saturation of stock, particularly in and around our major city centres, where a glut of new apartment construction has seen a tsunami of empty dwellings flood the local market.

But that type of insular thinking doesn't account for how ongoing low interest rates and world economic woes are impacting business and consumer confidence and spending at a broader level… and everything that flows from it.

All conjecture aside, with rent returns flatlining as lenders demand stronger cashflow evidence from potential investor borrowers, now more than ever you need to get a bit creative with shoring up those immediate income streams.

One obvious solution is undertaking a cosmetic renovation to update an older rental investment. But the key to making the numbers work in your favour is to approach such projects with a level head and an understanding of the desired outcomes. Keep these six things in mind and you'll be ahead of the game…

1. The market

Obviously the biggest impact on our self-esteem comes Any planned improvements should reflect your tenants' wants and needs. This isn't about your own personal tastes. Remember whom it is you're renovating for.

A neutral, easy maintenance décor will win over too many decorative liberties every time. Tenants have to be able to visualise how their own furniture and life will fit in to the space you create.

A great way to know your market and evaluate their expectations is to speak with your property manager. They have expert insight into what 'sells' rental accommodation and likewise, things that might alienate tenants.

2. The help

Speaking of property managers, never underestimate the networks of potential help that come with real estate industry professionals.

Don't forget these are the folks constantly interacting with local tradies and other such people whose assistance you'll require for your renovation project.

Look to your property manager for valuable referrals to reliable tradespeople, as well as ideas around the types of improvements that will extend your long-term capital gains.

3. The numbers

Keep your refurbishments cosmetic and/or functional wherever possible, avoiding costly structural work that can take a hefty bite out of your budget, but provide little in the way of extra value or rental income.

Aesthetic and useful improvements, like a modernised kitchen and bathroom, along with new carpets, light fittings and soft furnishings are visible enhancements that will make your property more appealing.

Work out a budget and stick to a strict schedule of works to avoid time and financial blowouts that could cost more than you'll walk away with.

4. The quality

Spend where it counts and can be easily seen, but also where the benefits may be subtler. A quality rental property should not only look engaging, but also feel comfortable to live in.

That being said, it's critical to keep the purse strings reined in to avoid negatively impacting your end profit margins with unnecessary luxury purchases. Just don't be tempted to start cutting important corners.

It's also a good opportunity to update old appliances if they're starting to resemble relics from last century. When tenants see a modern, crisp finish it suggests a landlord who considers their comfort and personal safety paramount.

5. The project

Precise project management is essential if you hope to tick those last two points off your rental renovation checklist.

The longer it takes to complete renovations, the longer the property is failing to generate an income. It's costing you money!

Think about hiring a professional project manager who can coordinate tradespeople and oversee work to get the job done on time and to budget, or take on the role yourself if you have the necessary skills and confidence.

6. The depreciation

The rewards reaped from a rental renovation don't end once you've marketed the new-look premises and secured a fantastic long-term tenant.

Arrange for an updated depreciation schedule from an appropriately qualified quantity surveyor upon completion of the renovations.

Many of the new items you purchase to replace the outdated ones in your investment can be claimed at the end of each financial year, over the life of your asset.

These tax savings can provide investors with a significant boost to your cashflow position and the long-term sustainability of your portfolio.